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Privatization and Adjustment

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ABSTRACT : With persistent inefficiencies of Bangladesh's state-owned enterprises (SOEs) and mounting losses, **privatization has become a compelling necessity**. While fiscal considerations are important, the principal argument in favor of privatization is improvement in efficiency under private ownership. The outcome of earlier privatizations in Bangladesh has been mixed as a result of the weak enabling environment and faulty implementation. The lesson that emerges from this review is that whilst the benefits of privatization are clear, they will become manifest in Bangladesh only if the privatization program is managed in a transparent, credible and well conceived manner, the enabling and regulatory environment is strengthened, and competition is encouraged to promote efficiency. The strategy developed in this report, while based on the experience of Bangladesh, draws from the extensive body of international experience. The report proposes a **three-pronged approach** to deal with poor SOE sector performance: (a) accelerated privatization of SOEs in the manufacturing sector; (b) early privatization of selected larger SOEs in other sectors including those in utilities and infrastructure which account for some 80% of aggregate SOE net worth. These need to be included if GOB is to have a credible privatization program; and (c) greater private participation in utilities and infrastructure and enterprise reform of SOEs that will remain under public ownership for sometime. For smaller, more attractive SOEs there will be no shortage of local buyers. However, for the larger SOEs such as in telecommunications, electricity and gas, foreign involvement will be essential for their successful privatization. In parallel with the drive to induce greater private participation and stimulate competition there should be a renewed emphasis on improving the operational efficiency of the larger SOEs that will remain under public ownership over the medium term. **Labor rationalization** and related social concerns constitute an important aspect of the privatization process. Labor concerns are not intractable and a sensible privatization program and adequate safety net arrangements can overcome many of the concerns. The **institutional arrangements** for privatization have recently been strengthened with the establishment of the Privatization Board. The Board should be given a strong mandate to manage, co-ordinate and implement the privatization program. GOB needs to issue a privatization policy statement and launch a significant public relations campaign to build a broad-based support for the program.

LIST OF ABBREVIATIONS AND ACRONYMS USED

ADB	-	Asian Development Board
BADC	-	Bangladesh Agricultural Development Corporation
ECI	-	Bank of Commerce and Industry
BCIC	-	Bangladesh Chemical Industries Corporation
BEPZA	-	Bangladesh Export Processing Zone Authority
BHB	-	Bangladesh Handloom Board
BIMAN	-	Bangladesh Biman
BIWTA	-	Bangladesh Inland Water Transport Authority
BIWTC	-	Bangladesh Inland Water Transport Corporation
BFDC	-	Bangladesh Film Development Corporation
BFDC	-	Bangladesh Fisheries Development Corporation
BFIDC	-	Bangladesh Forest Industries Development Corporation
BFFWT	-	Bangladesh Freedom Fighter Welfare Trust
BJC	-	Bangladesh Jute Corporation
BJMC	-	Bangladesh Jute Mills Corporation
BOI	-	Board of Investment
BOO	-	Build Operate Own
BOT	-	Build Operate Transfer
BOGMC	-	Bangladesh Oil, Gas and Minerals Corporation
BPC	-	Bangladesh Petroleum Corporation
BPDB	-	Bangladesh Power Development Board
BPRC	-	Bangladesh Parjaton Corporation
BR	-	Bangladesh Railways
BRTA	-	Bangladesh Road Transport Authority
BRTC	-	Bangladesh Road Transport Corporation
BSB	-	Bangladesh Shilpa Bank
BSB	-	Bangladesh Sericulture Board
BSC	-	Bangladesh Shipping Corporation
BSCIC	-	Bangladesh Small and Cottage Industries Corporation
BSEC	-	Bangladesh Steel and Engineering Corporation
BSFIC	-	Bangladesh Sugar and Food Industries Corporation
BSRS	-	Bangladesh Shilpa Rin Sangstha
BTMC	-	Bangladesh Textile Mills Corporation
BTTB	-	Bangladesh Telegraph and Telephone Board
CDA	-	Chittagong Development Authority
CPA	-	Chittagong Port Authority
CWASA	-	Chittagong Water Supply and Sewerage Authority
DBL	-	Development Bank Limited
DESA	-	Dhaka Electricity Supply Authority
DFI	-	Development Financing Institution
DOL	-	Directorate of Labor
DWASA	-	Dhaka Water Supply and Sewerage Authority
ECNEC	-	Executive Committee of National Economic Council
EPZ	-	Export Processing Zone
ESOP	-	Employee Stock Options Program

FIAS	-	Foreign Investment Advisory Services
GOB	-	Government of Bangladesh
GNP	-	Gross National Product
GOP	-	Gross Domestic Product
HES	-	Household Expenditure Survey
ICB	-	Investment Corporation of Bangladesh
ICOP	-	Inter-ministerial Committee on Privatization
IDA	-	International Development Association
IFIC	-	International Finance and Investment and Commerce Bank Limited
JBC	-	Jiban Bima Corporation
JUMS	-	Jute Manufacturing Study
KDA	-	Khulna Development Authority
MPA	-	Mongla Port Authority
NCB	-	Nationalized Commercial Bank
NCBL	-	National Credit Bank Ltd.
NGO	-	Non-Governmental Organization
PME	-	Public Manufacturing Enterprise
RAJUK	-	Rajdhani Unnayan Kartipakhya
REB	-	Rural Electricity Board
SBC	-	Sadharan Bima Corporation
SKOP	-	Sramic Karmachari Oikkya Parishad
SOE	-	State Owned Enterprise
TCB	-	Trading Corporation of Bangladesh
Tk	-	Taka
UCBL	-	United Commercial Bank Limited
VDS	-	Voluntary Departure Scheme

BANGLADESH

PRIVATIZATION AND ADJUSTMENT

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This report is based on the work of an IDA mission to Bangladesh in March 1993, led by Nadaraja Ramachandran (SA1CI). Contributing to the report were Helen Nankani, Hafeez Shaikh (CFSPS); John Speakman, Binayek Sen, Tawfiq E. Chowdhury, Shamsul Haque, Abdul Mubin, David Levintow, Edward White, Darius Teter (Consultants). The report was discussed with the Government of Bangladesh in February 1994.

EXECUTIVE SUMMARY

Introduction

1. The state-owned enterprise (SOE) sector grew rapidly in Bangladesh during the period 1971-75. The reasons for this spectacular growth were: first, historical circumstances (the government was forced to take possession of businesses abandoned by their former Pakistani owners at the time of liberation); and second, the political persuasion of the government of the time which nationalized industry, banks and other financial institutions. As a result, there were about 350 SOEs by 1975. For a variety of reasons the performance of the SOEs deteriorated and they came under heavy criticism for inefficiencies and corruption. In response to their worsening financial condition successive governments since 1975 announced (or attempted) one or the other kind of a privatization program. Notwithstanding successive divestments, some 235 enterprises continue to remain under public ownership. In spite of their relatively small share of the economy (6% of GDP, 1% of total labor force) SOEs exert tremendous pressure on the country's fiscal situation. Also, because SOEs operate in the critical sectors of the economy, their inefficiency negatively affects the provision of infrastructure services and hurts the overall growth prospects of the economy. Thus, there is an overriding -- and urgent -- need to accelerate the process of their privatization and reform. In the context of this study, privatization encompasses two types of activity: transfer of existing publicly-owned assets to the private sector; and the introduction of private sector competition/partnerships into sectors hitherto reserved for the public sector.

SOE Sector and Problems

2. The largest *number* of some 235 SOEs now in operation are in the manufacturing sector and cover industries such as textiles, steel and engineering, food, chemicals, and jute. However, the manufacturing SOEs do not account for the greater part of the share of assets. It is the utility and infrastructure sector -- power, gas, transport and telecommunications -- which has the dominant share (80%) of assets. Other important components of the SOE sector include enterprises engaged in transportation, banking, construction and trade.

3. Though SOEs were intended to function on commercial lines and earn an acceptable rate of return on GOB's investments in them, SOEs are in many cases producing significant losses which preempt valuable resources that could otherwise be used for poverty alleviation. SOE losses are a charge on the country's exchequer either directly as capital infusions or indirectly as write-offs/subsidies to the banking system for SOE bad debts. These bad debts have threatened the financial viability of the state banks. In 1992/93 SOE losses had swollen to Tk 20 billion (US$500 million) which represents about 45% of the country's annual project aid disbursement and 2% of GDP. If not for these losses, Bangladesh could, for instance, finance entirely from its own resources a Jamuna Multi-purpose Bridge project every 18 months! With much of top SOE management being drawn from the administrative cadre, SOEs are also a drain on the scarce administrative talent in the country. The utility SOEs' performance in terms of availability and quality of essential services, falls well short of international benchmarks. This has caused an upward shift in the production cost structure of Bangladesh, and goods and services supplied by SOEs have become uncompetitive in domestic as well as international markets. And in sectors where SOEs have a major role, poor performance of SOEs has tended to depress performance in the sector as a whole.

4. The reasons for the poor SOE performance are varied: lack of direction and autonomy, weak management, overstaffing and abuse of overtime, revenue pilferage and low prices. The GOB has tried public enterprise reform as a means of introducing efficiency into the SOE sector. However, these reforms have not succeeded in the past. SOEs continue to have a multiplicity of goals, managers are not given sufficient authority to make difficult decisions regarding SOE operations, and are not truly accountable for failure.

Compelling Need to Privatize

5. The appropriate policy response to the damaging consequences of poor SOE performance is to privatize a broad spectrum of the SOE sector while encouraging competition and tangible reforms in those SOEs that are likely to remain in the state sector in the foreseeable future. Privatization is now a worldwide phenomenon with more than 8,000 SOEs having been privatized in over 80 countries in the past 12 years following disenchantment with SOEs. The case for privatization in Bangladesh is based primarily on three inter-related classes of reasons: the positive effects on government's fiscal situation, improvement in the efficiency of enterprises following privatization, and signaling effects that will promote greater investment and higher growth in the medium-term. The positive effects on GOB's fiscal situation will flow from the elimination of SOE losses and from an expanding revenue base with a growing private sector. Another source of positive fiscal impact, one that has been motivating a number of other countries to privatize, are the proceeds generated from sale of SOEs. In Bangladesh, however, in the first phase of privatization, SOE net sales may not be considerable. The transaction costs of privatization are likely to be high and include separation benefits for SOE employees, financial restructuring of selected SOEs before sale and expenses of managing the program. Fortunately Bangladesh has a good measure of donor support to supplement GOB's own resources. Divestment of more profitable SOEs, including some of the utilities may, however, yield considerable returns. While fiscal considerations are important, the principal argument in favor of privatization is improvement in efficiency under private ownership. The evidence from Bangladesh demonstrates that the private sector uses fixed assets and deploys labor more efficiently than the public sector and that a higher proportion of private sector firms are profitable as compared to public sector enterprises.

Earlier Privatization Experience

6. In Bangladesh the scope of privatizations completed has been small and the outcomes have been mixed. Though the number of units privatized since the mid 1970s have been quite large, these consisted for the most part of small factories and mills and their divestment did not materially change the role of SOEs in the economy and made little contribution (less than Tk 2 billion) to GOB's capital receipts. The outcomes of privatization were often affected by the permissive environment in which divestment took place, and which the private sector often took advantage of, and this has become the focus of substantial criticism by many commentators in Bangladesh. Criticisms include the failure to repay debt incurred in the first round of privatization, allegations of collusion and corruption in the tendering process, lack of evident post-privatization profitability, closure of enterprises and failure to pay out employee entitlements on closure. These complaints

have given rise to considerable skepticism about the fruits of privatization. However, these are not criticisms of privatization per se, but of the weak enabling environment and faulty implementation. In particular, closure of units, cited as a sign of failure of divestiture, more plausibly represents shift to a better allocation of these resources. The lesson that emerges from this review is that whilst the benefits of privatization are clear, they will become manifest in Bangladesh only if the privatization program is managed in a transparent, credible and well conceived manner, the enabling and regulatory environment is strengthened to prevent private sector abuse of the program and competition is encouraged to promote efficiency. The strategy developed in this report, while based on the experience of Bangladesh, draws from the extensive body of international experience.

The Strategy: Broad Guidelines

7. This report proposes a three-pronged approach to deal with poor SOE sector performance. The three elements of the proposed strategy are:

- **Accelerated privatization of SOEs in the manufacturing sector**: There is a consensus on the need for increasing the pace of privatization of the manufacturing and smaller service SOEs. These SOEs are not operating in monopolistic markets, are commercial in nature and are a continuous drain on the limited fiscal and administrative capabilities of the government. The privatization of these enterprises should also be relatively easy because of their smaller size and because they can be sold via open tendering -- a bidding process which has already been used in the case of past privatizations in Bangladesh -- and can be acquired by the domestic private sector in a relatively short-period of time.

- **Early privatization of selected larger SOEs in the utilities, transport and finance sectors**. The privatization of manufacturing SOEs alone will not have a decisive effect on the fiscal or efficiency objectives of the reform program because it is the inefficiency - and the losses - of the larger SOEs that are critical. Accordingly a reduction should be targeted in GOB's role in the utilities and infrastructure sector (which represents an upper limit net worth on the order of US$2.9 billion, i.e., 80% of aggregate SOE net worth) and other larger SOEs. This group needs to be included if GOB is to have a credible privatization program. Moreover, the sale of larger SOEs is important for achieving the "signalling" objective of the privatization program and in attracting foreign investors into Bangladesh. It is thus proposed that the Privatization Board focus efforts on identifying a few large SOEs where early privatization is possible and also develop a strategy for attracting investors from abroad for the sale of these SOEs.

- **Greater private participation in infra-structure and enterprise reform for SOEs that will remain under public ownership**. Even if the privatization of smaller SOEs is accomplished and some larger SOEs are sold, it may not be feasible to sell outright some of the SOEs operating in critical sectors of the economy (such as in power and gas) for some time. However, for national economic development improving the

efficiency of these sectors is paramount. Infrastructure constraints have emerged as a key bottleneck to development in Bangladesh. This recognition, combined with the inability of the SOEs to self-finance their investments, makes it imperative that the private sector be encouraged to participate in the provision of these services. Private participation can take various forms:

- opening up areas hitherto reserved for the public sector;
- attracting the private sector into joint ventures and BOO/BOT type arrangements; and
- management contracts to allow the private sector to improve the quality of management and impart technical skills, even if ownership remains under public hands.

In parallel with this drive to induce greater private participation and stimulate competition, there should be a renewed emphasis on improving the operational efficiency of the larger SOEs that will remain under public ownership for the medium term. Measures to improve efficiency and profitability include correcting pricing policies, reducing overstaffing, decreasing political and administrative intervention, strengthening the current system of monitoring by focusing on outcomes rather than procedures, adding incentives which are lacking in the current performance contract designed by the Monitoring Cell of the Ministry of Finance and selectively restructuring the SOEs.

These strategy prongs are not mutually exclusive and should be conducted simultaneously.

Strategy: Specific Recommendations

Privatization should be carried out in Parallel with Reform of Enabling Environment

8. Adjustment of the enabling and regulatory environments is required if the full benefits from the privatization program are to be achieved. The current enabling environment can be described as weak, and the regulatory environment as ineffective. Whilst this environment will not prevent privatization, it will severely limit the fiscal returns, constrain private sector development and impede economic efficiency. It is precisely this scenario that has occurred in past privatizations and has been a principal contributor to the claims of failure of past privatizations.

9. The negative elements of the enabling environment are: (a) investment regulatory functions are burdensome; (b) with formal sector wage rates rising in real terms over the past decade without any corresponding increase in productivity, wage rates are becoming uncompetitive compared to other low income countries; (c) high real interest rates, bureaucratic problems in state banks and extreme risk aversion in private banks, make credit very difficult to secure; (d) the legal environment is ineffective; (e) despite generous depreciation allowances, high corporate tax rates and widespread

tax evasion could discourage and disadvantage listed companies and foreign investors, two important potential sources of capital for the privatization program; and (f) the general infrastructure in terms of energy, communications, transportation, water and waste disposal ranges from barely adequate to very poor. For instance, losses due to power outages were as high as 29% of the value of production of some firms in the first six months of 1993. There are over 100,000 applications waiting for telephone connections, notwithstanding a high deposit fee.

10. The GOB has recognized many of these deficiencies and has embarked on a process of reform. Good progress has been made in removing non-tariff trade barriers; rationalizing tariff rates; improving export incentives; opening new sectors to private investment; relaxing exchange controls; and preparing reforms of business laws. However, the enabling environment constraints that remain are substantial and the analysis in this report tends to be critical of the Bangladesh environment as it lags behind many of the countries competing for international funds for their privatization programs. In many areas a wide gap exists between announcement of policies and actual implementation. The investment community locally and offshore must believe the proposed reforms will be implemented and the trend of reform will continue. In particular, GOB must convince purchasers of SOEs that conditions of sale will be upheld, the best signal being a pattern of consistent and credible action. A related issue is the general distrust that exists between the public and private sectors and this must be reduced.

11. The role of competition in promoting efficiency in the economy can hardly be overemphasized. In the past there were very few mechanisms, other than direct intervention, to increase competition, protect the interests of consumers and the public at large. The GOB is currently working on strengthening the 1970 Monopolies and Restrictive Trade Policies Ordinance for this purpose. However, such regulations tend to have unintended adverse effects and are being substantially curtailed in other countries that are liberalizing their economies. GOB should use extreme caution in reviving a regulatory regime which is bei discarded elsewhere. In the non-utility sectors the thrust of consumer protection should come from competitive forces -- from competing domestic products and services and imports. In the utility and infrastructure areas, where SOEs dominate, the role of competition could be enhanced through freedom of entry, divestiture, contracting out and concession arrangements. Particular regulatory problems arise in the utility and infrastructure areas, and since more than 80% of SOE assets are in these sectors, GOB may consider special arrangements for developing a regulatory framework for these areas. Regulation is, however, not an essential precursor to privatization. In a perfect world the privatization process would wait until the various enabling, regulatory and market impediments were resolved. An important message this report contains is that these impediments should not forestall privatization, for in many cases the privatization process itself will help resolve impediments.

Labor Concerns can be Managed

12. Labor rationalization and related social concerns constitute an important aspect of the privatization process. The primary reason for labor restructuring is that SOEs are currently overstaffed. This has in many instances brought financial ruin upon the SOEs and is no longer sustainable. The total number of SOE employees, around 453,000, is a very small part (1%) of the labor force. Those directly affected by labor rationalization will be even less. Nevertheless, SOE

labor has a significance beyond its size as it tends to be highly politicized, it controls many strategic infrastructure industries, e.g., utilities and transport, and SOE sector wage increases have been used by unions to extract comparable increases in the private sector.

13. In the past labor has been one of the most vocal opponents to privatization. Its opposition is based on several standpoints:

- there is a feeling among organized labor groups that labor has not been well treated in past privatizations, with benefit and gratuity entitlement often not being paid out;
- the benefits of SOE employment in terms of pay, allowances, overtime and other income can be considerable; and
- with the wider family dependent on the wages of the SOE workers, job loss could have far-reaching implications in a slow growing economy where alternative job opportunities are not easily found.

14. Whilst labor is still vocal in its opposition, its position on privatization has moved significantly in a relatively short period of time. From a position of implacable opposition there is now a degree of acceptance by the unions of the inevitability of privatization although there are some significant reservations. The reason for the change is the continued loss-making of SOEs and the realization that the alternative to privatization may be closure/liquidation of the SOEs concerned.

15. Labor concerns are thus not intractable and a sensible privatization program can overcome many of their concerns. The core elements of the program should include: adequate and flexible severance arrangements; new skill building programs to enable retrenched workers to find alternative jobs in the private sector; and in some cases, employee share participation schemes. All these programs must be properly communicated. To this end a well conceived and vigorous public relations program is essential to deal with the workers' main concerns. Such public relations program should deal with all sectors of the community.

The Privatization Requires the Introduction of Substantial Foreign Capital

16. It is estimated that with some innovation in terms of approach, some $800 million of local capital would be available over a 5-year period for the privatization program. For smaller, more attractive SOEs in manufacturing, textiles and banking, there will be no shortage of local buyers. However, for the utilities such as telecommunications, electricity and gas and for other large SOEs, foreign involvement will be essential for their successful privatization. Foreign markets are not only a source of capital but can also provide much needed managerial talent and technology. The comments on improving the enabling environment are especially relevant to attract foreign investors. There are two particular mechanisms for foreign investment the GOB should consider. One is the encouragement of an offshore listed private sector funded Bangladesh country fund. A number of East Asian countries and more recently Pakistan have used this technique to augment foreign capital inflows. Another is the establishment of a multilateral donor sponsored country fund as administered by the IFC and ADB in a number of countries.

The Approach to Privatization can be Improved

17. In most previous privatizations in Bangladesh, preparation for sale has not been properly carried out. The businesses have tended to be sold as is, where is. There has been little consideration of the optimal shape of the sector (jute being a welcome departure from past practice). Due diligence type procedures have not been applied on assets and liabilities, so disputes have arisen on existence, quantity and quality. Surplus assets notably land, have not been identified and separated. Failure to account for land has significantly distorted privatization efforts to date by encouraging financial buyers as opposed to operational buyers. Operational restructuring requirements have not been assessed in any systematic way. Valuations to set reserves have been carried out in an inconsistent and dissonant manner. These deficiencies can be remedied by: establishing a proper approach to preparation, incorporating the above points; and employing adequate and competent professional advice in the preparation process. The current jute sector reform is an example of an approach that addresses a multiplicity of concerns. It takes a strategic view of a post-privatization jute sector, together with a particular approach towards closure/retrenchment, financial restructuring, wage issues and the modality of privatization.

Privatization should Involve a Broad Range of Approaches

18. The privatization of SOEs provides scope to apply most of the basic forms of privatization: private treaty sales, public offerings, liquidation, free of charge transfers, transfers to stakeholders and public/private sector partnerships. The particular method adopted will depend on the absorptive capacity of markets, the financial condition, size and track record of the SOE and consideration of GOB's overall privatization objectives. A workable privatization program will not be limited to any one technique, rather it will be a blend of a range of techniques tailored to meet Bangladesh's specific needs.

19. Overseas experience, whilst relevant from an illustrative point of view, requires careful interpretation before being applied in Bangladesh. No overseas country matches Bangladesh in its combination of size, income, history, past approach to privatization, economic and social structure and the role of the public sector. Specific suggestions include:

- sensitive and sensible application of foreign capital and managerial talent;
- where possible the use of Dhaka Stock Exchange;
- mechanisms to involve all segments of the community, such as a poverty alleviation trust;
- a high degree of focus on transparency and credibility;
- an approach to sequencing that is popular and mobilizes popular support for the program;
- close linkage to a wider range of economic and regulatory reforms; and
- use of privatization proceeds, not as revenue, but for capital-type transactions such as investment in local projects.

20. Privatization must be seen to benefit the community at large in an unambiguous and transparent manner. To this end some innovation will be required to enable benefits to be extended

to Bangladesh's substantial and impoverished informal sector. Trust or foundation mechanisms present a possible option in this regard and it is recommended that these options be investigated further. Those who have abused past privatization programs through non payments of financing debt, and who have not subsequently repaid or restructured their debt, must be excluded from participation in this new program.

21. Bangladesh has significant institutional limitations to its ability to manage infrastructural investment. Whilst there is no shortage of concessional capital available to assist the country with its large infrastructural needs, operational and implementational inadequacies limit the effectiveness of SOEs responsible for infrastructure, and consequently the capital available cannot be applied. Alternative approaches are required. Possible alternatives include management contracts, leases and concession arrangements. However, these alternatives should not be seen as panaceas for the fundamental reforms that must continue in the infrastructural SOEs.

22. Concession arrangements including BOO/BOT have some promise in Bangladesh. However, these arrangements require careful management. They are complex, usually of considerable value, incorporating state of the art technology and involving sophisticated investors well versed in multinational investments. As private financing tends to be weak in comparison to the size of the investment, the government may have to play a participating role with the private investor sharing both risk and potential reward. External agencies could participate to syndicate the financial package. The Privatization Board with its wider privatization mandate is the appropriate vehicle for managing these arrangements. The Board will require the support of various transaction-specific advice which will need to be sourced from domestic and international consultancies.

23. Some initial opportunities for BOO/BOT and contracting out have been identified in Petrobangla, the internal transport sector, where contracting out and leasing prospects exist, telecommunications where BOO/BOT could help develop infrastructure, and the power sector, where examples exist of an unsolicited proposal for a generation plant and of the potential for private sector operations in power distribution. Despite regulatory problems the telecommunications sector represents an area which best suits a demonstration project. The project would be a service aimed at the business community, where tariffs are not likely to be a constraint and where the investment is reasonable and the service is viable.

The GOB must Strengthen its Institutional Capability

24. The institutional arrangements for privatization have recently been strengthened with the establishment of the Privatization Board. The Privatization Board is located in the Cabinet Division and will serve as the centralized authority responsible for privatization in Bangladesh. There are important lessons from the institutional arrangements applying in other countries where privatization has been successful. The head of Government has usually championed and led the privatization process. The private sector has been used extensively to implement transactions. An entity similar to the Privatization Board, limited in size, but with significant autonomy, has spearheaded the effort. Transparency of processes has been crucial.

25. Based on the international experience and the setting in Bangladesh, the institutional arrangements for successful privatization should have certain features. The Board should have its own budget plus ability to hire its own staff with the requisite skills for an efficient operation. The Board's activities should be seen as transparent with clear guidelines for all involved in the privatization process. Bidding documents should contain all relevant information and negotiations kept to a minimum. GOB needs to issue a privatization policy statement, reinforced by visible support of the Prime Minister and Cabinet as well as top civil servants. A significant public relations campaign should be launched to build a broad-based support for the program.

26. The private sector should be involved in a number of ways. It should be consulted at all stages through the privatization process. A mechanism for achieving this is the appointment of a small high level advisory board, consisting of some of Bangladesh's most respected business people and professionals. The private sector should also carry out most of the technical work linked to privatization. To assist in this regard an adequate program of supporting technical assistance would be appropriate.

27. Two types of assistance should be sought for the Privatization Board, operational and logistical support for the Board itself and support for specific transactions. Selection of consultants to support the technical assistance should take into account local sensitivities and should include a blend of local and foreign consultants.

Objectives/Recommendations Matrix

28. The matrix presented below summarizes the report's key recommendations in terms of GOB's privatization objectives, namely, enhancement of the fiscal benefit of privatization, enhancement of economic efficiency, and assisting in the development of the private sector.

Summary of Recommendations

Objective / Recommendation	Enhance Fiscal Benefits of Privatization	Enhance Economic Efficiency	Assist with Private Sector Development
1. Accelerate program of privatization	◆	◆	◆
2. Sell larger SOEs	◆	◆	◆
3. Allow private participation in infrastructure		◆	◆
4. Public enterprise reform	◆	◆	◆
5. Rationalize labor and develop safety net for displaced labor		◆	
6. Reform key aspects of enabling environment	◆	◆	◆
7. Introduce proper regulatory environment		◆	
8. Establish proper approach to preparation for sale	◆		
9. Develop wider range of financing options	◆		◆
10. Develop mechanisms e.g. Poverty Alleviation Trust, to allow widespread ownership			◆
11. Strengthen Administrative Arrangements	◆		

CHAPTER 1

INTRODUCTION, MACRO-ECONOMIC ASPECTS AND RATIONALE FOR PRIVATIZATION

Introduction

1.1 State-owned enterprises (SOEs) in Bangladesh have given rise to several fundamental problems: (a) SOEs are in most cases producing significant losses which use up valuable resources, thus severely constraining the fulfillment of GOB's poverty alleviation objectives; (b) continued state ownership inhibits the ability of the private sector to develop and contribute its share to a faster rate of economic growth; and (c) the current SOE model does not respond to market signals and leads to poor service, substandard quality, inappropriate production and pricing, and its goods and services have become uncompetitive in domestic as well as international markets. Privatization is the appropriate policy response to these problems.

1.2 This Privatization and Adjustment Study examines the elements of privatization and outlines a feasible program over the near to medium term for Bangladesh. The study commences with a macro economic perspective and explains how privatization with help resolve the above questions. Key aspects of the enabling and regulatory environment are then discussed to determine whether there are any significant obstacles to privatization. In particular the perception that labor is a fundamental constraint is assessed. An approach to preparing state-owned enterprises (SOEs) for sale and a strategy for financing the privatization is presented. The opportunity to develop public/private sector partnerships is analyzed. The sequencing of privatization is considered, and finally the institutional arrangements for managing privatization are reviewed, as well as measures for enterprise reform of SOEs.

1.3 In the context of this study privatization encompasses two types of activity: (a) transfer of existing publicly owned assets to the private sector; and (b) the introduction of private sector competition into sectors hitherto reserved entirely for the public sector. This report proposes a three-pronged approach to deal with poor SOE sector performance. The three elements of the proposed strategy are:

1. *Accelerated privatization of SOEs in the manufacturing sector*: There is a consensus on the need for increasing the pace of privatization of the manufacturing and smaller service SOEs. These SOEs are not operating in monopolistic markets, are commercial in nature and are a continuous drain on the limited fiscal and administrative capabilities of the government. The privatization of these enterprises should be relatively easy because they are smaller in size and because they can be sold via open tendering -- a bidding process which has already been used in the case of past privatizations in Bangladesh.

2. *Early privatization of selected larger SOEs in the utilities, transport and finance sectors*: The privatization of manufacturing SOEs alone will not have a decisive effect on the fiscal or efficiency objectives of the reform program because it is the inefficiency -- and the losses -- of the larger SOEs that are critical. Moreover, the sale of larger SOEs is important for achieving the "signalling" objective of the privatization program and in attracting foreign investors into Bangladesh. It is thus

proposed that the Privatization Board focus efforts on identifying a few large SOEs where early privatization is possible and also develop a strategy for attracting investors from abroad for the sale of these SOEs.

3. *Greater private participation in infra-structure and enterprise reform for SOEs that will remain under public ownership*: Even if the privatization of smaller SOEs is accomplished and some larger SOEs are sold, it may not be feasible to sell outright some of the SOEs such as in power and gas for some time. However, for national economic development improving the efficiency of these sectors is paramount. Infrastructure constraints have emerged as a key impediment to development in Bangladesh. This realization, combined with the inability of the SOEs to self-finance their investments, make it imperative that the private sector be encouraged to participate in the provision of these services. Private participation can take various forms: (a) opening up areas hitherto reserved for the public sector only; (b) attracting the private sector into joint ventures and BOO/BOT type arrangements; and (c) management contracts to allow the private sector to improve the quality of management and impart technical skills, even if ownership remains under public hands. Chapter 6 addresses the issue of private participation in greater detail.

There should simultaneously be a renewed emphasis on improving the operational efficiency of the large SOEs that will remain under public ownership at least during the medium term. Measures to improve efficiency and profitability include correcting the pricing policies, reducing overstaffing, decreasing political and administrative intervention, strengthening the current system of monitoring by focusing on outcomes rather than procedures, adding incentives which are lacking in the current performance contracts designed by the Monitoring Wing of the Ministry of Finance and selectively restructuring the SOEs. These solutions to the problems of SOEs are well known; what is needed for success is a serious resolve and a redoubling of effort through committed leadership from GOB.

These strategy prongs can and should be pursued simultaneously.

The Macro-Economic setting for privatization and market-oriented development of Bangladesh

1.4 The most striking aspect of the macro-economic environment of Bangladesh is the widespread poverty. With a GNP per capita of only $220 and a population of about 113 million, Bangladesh is the largest of the world's least developed countries. Two noteworthy characteristics are Bangladesh's proneness to natural disasters and its limited natural resource endowment - limited to its relatively fertile soil and substantial reserves of natural gas. In many respects the macro-economic environment of Bangladesh is very similar to that of other countries categorized as being poor. However, by regional standards, many features of the Bangladesh macro-economy do look different.

1.5 The first distinguishing characteristic is the much lower growth in per capita income which in Bangladesh has averaged about 1.9% a year over the last 20 years, compared to 3.2% in India and 2.5% in Sri Lanka. Bangladesh's weaker performance has been due partly to a lower rate of GDP growth but even more to the higher population growth rate in Bangladesh. Underlying the weaker performance of Bangladesh is its exceptionally low domestic savings ratio of 4%, as against 12% in Pakistan and 13% in Sri Lanka. Private rather than Government consumption is what figures high in Bangladesh.

1.6 Reflecting the poor domestic savings performance of Bangladesh is the low level of domestic investment, which at 10% of GDP is about half the investment rate of other South Asian countries. Another feature has been the macro management style of successive governments in Bangladesh which has tended to be cautious and conservative. The evaluation of the last few IDA Import Program Credits to Bangladesh and adjustment programs over a relatively long period concluded that while stabilization was achieved, the growth objective was not. The pursuit of stabilization meant the reduction in the fiscal deficits and domestic inflation rates to modest levels.

1.7 This macro-economic backdrop points to some clear strategies for the development of Bangladesh. The overarching objective in Bangladesh is poverty alleviation, and this is to be approached from various angles. One aspect is enhancing the development of human resources. Another is bringing down the rate of population growth, and yet another a program of targeted assistance to the very poor. But the aspect which is of particular relevance to the present Privatization and Adjustment study is alleviation of poverty and creation of employment through a faster rate of economic growth. This falls back to the question of raising investment levels in Bangladesh. Raising GDP growth rates within the next five years from the historical average of a little over 3% to 6%-7% will call for an investment to GDP ratio of nearly 20%, which is comparable to current levels in other South Asian countries.

1.8 Bangladesh's current investment to GDP ratio of 10% is divided almost equally between public and private investment. Inevitably therefore one leg of the development strategy consists of raising the levels of public investment, and this well be so particularly in the initial stages, pending a lagged private sector response. An increase in public investment from the present 5% of GDP to about 9% should be feasible within the next few years with accelerated progress in addressing constraints on public investment such as shortage of taka counterpart funds and project processing and implementation delays. Under this rubric of improving public investment is also the task of restructuring state-owned enterprises (SOEs) and allowing them to operate on a commercial, market-oriented basis.

1.9 The other leg of the development strategy is to raise the level of private investment from the present 6% of GDP to nearer 10% by year 2000. The initial rise in public investment would itself facilitate the recovery in private investment through improving the physical and human infrastructure. The broad framework in which private investment is expected to expand is through the creation of a private sector-friendly environment in the economy and through the pursuit of more market-oriented strategies. Considerable progress has already been made in this direction. In agriculture there has been a greater role given to the private sector in the provision of agricultural inputs and services and remaining subsidies are being eliminated. In the financial sector, among other reforms, a more market-determined interest rate policy is being pursued. In trade policy,

rationalization and moderation of the tariff structure is underway in the context of IDA's Second Industrial Sector Adjustment Credit. In industry there is progress towards de-regulation and reform of business laws and legal procedures. Privatization of SOEs and creation of new private initiatives in state-dominated sectors would be another integral component of the up-turn in private investment.

Genesis of Bangladesh State-owned Enterprises (SOEs) and Early Privatization Initiatives

1.10 Independence took a great toll on Bangladesh. The war of liberation left the population decimated, the infrastructure shattered, the countryside devastated and civil administration in shambles. Industries and commerce came to a halt due to the mass exodus of Pakistani owners and managers. The immediate concern was to get the economy moving. One of the pressing problems was how to restart the many abandoned business and industrial enterprises that were standing idle and were vulnerable to scavenging. Government passed Presidential Order No. 1 of 1972 and took possession not only of abandoned factories and commercial establishments but also of abandoned houses and motor vehicles. In this context the new Government decided to restructure the economy and socialize the means of production. Already there was a strong presence of government in health, education, communication and energy sectors in the pre-independence days. There was some government control over large-scale industries and foreign trade. Agriculture was essentially private although agricultural imported supplies, especially fertilizer, irrigation equipment and improved seed were government controlled. Petty trading was fully private. The attempt at socialism was primarily confined to industry and foreign trade. International shipping was nationalized by Presidential Order No. 10. This was followed by nationalization of key large and medium industries, banks and financial institutions, and some 350 SOEs were in operation by 1974/75. Rigid wage and price controls, and a highly regulated external trade regime were put in place.

1.11 It soon became evident that the economy remained stagnant and the public sector came under heavy criticism for rampant corruption and inefficiencies. So in July 1974 it was decided to expand somewhat the role of the private sector. The monopoly in foreign trade was relaxed, foreign investment controls were reduced, ceilings on private investment in industrial sector were raised and many of the abandoned commercial establishments were disinvested to the private sector.

1.12 Notwithstanding successive divestments some 225 SOEs (grouped under 38 corporations) four state commercial banks, three insurance corporations, two agricultural banks and three DFIs are still in operation. (See Table 1.1 on size and importance of SOEs.) The largest number of SOEs (154) are in the manufacturing sector and cover industries such as textiles, steel and engineering, food, chemicals and jute. The energy and power sector is dominated by the Power

Table 1.1: Size and Importance of SOEs, End-FY93
(Taka million)

	Corporations /1	No. of firms	Assets	Sales	Number of Employees
Manufacturing/Industry					
BTMC	Textile Mills Corp.	42	18,084	5,067	23,262
BSEC	Steel & Engineering Corp.	20	26,069	4,251	12,217
BSFIC	Sugar & Food Industries Corp.	21	12,140	4,616	27,821
BCIC	Chemical Industries Corp.	23	133,701	17,188	27,067
BFIDC	Forest Industries Development Corp.	15	2	875	4,728
BJMC	Jute Mills Corp.	30	15,016	6,557	98,401
Power, Gas, Water					
BOGMC	Oil, Gas & Minerals Corp.	9	40,942	5,694	6,495
BPDB	Power Development Board	1	146,029	13,682	28,305
CWASA	Chittagong Water Supply & Sewerage Autho	1	1,417	163	820
DWASA	Dhaka Water Supply & Sewerage Authority	1	8,301	598	3,098
DESA	Dhaka Electricity Supply Authority	1	18,836	6,002	6,275
Transportation					
BSC	Shipping Corp.	1	5,238	1,971	795
BIWTC	Inland Water Transport Corp.	1	2,901	552	5,750
CPA	Chittagong Port Authority	1	11,595	1,638	8,139
MPA	Mongla Port Authority	1	5,136	370	1,990
BBC	Biman Corp.	1	7,817	7,952	5,578
BRTC	Road Transport Corp.	1	625	247	3,133
Trade/Commercial					
BPC	Petroleum Corp - units	8	24,612	59,919	3,056
BJC /2	Jute Corp.	1	1,864	570	350
TCB	Trading Corp. of Bangladesh	1	1,018	1,862	1,211
Agriculture					
BFDC	Fisheries Development Corp.	17	3,594	220	917
BADC	Agricultural Development Corp.	1	1,385	150	2,484
Construction					
CDA	Chittagong Development Authority	1	503	58	507
RAJUK	Rajdhani Unanayan Kartipakhya	1	5,466	19	734
KDA	Khulna Development Authority	1	305	29	218
RDA	Rajshahi Development Authority	1	270	22	77
Other/Service					
BFDC	Film Development Corporation	1	445	175	449
BFFWT	Freedom FightersWelfare Trust	4	1,609	554	2,417
BPRC	Parjaton Corp.	1	550	489	699
BCAA	Civil Aviation Authority	1	4,502	830	4,364
BSCIC	Small & Cottage Industries Corp.	1	2,617	147	1,545
BIWTA	Inland Water Transport Authority	1	3,195	491	3,956
REB	Rural Electrification Board	1	16,678	348	758
BEPZA	Export Processing Zone Authority	1	1,413	69	398
BHB	Handloom Board	1	377	21	240
BSB	Sericulture Board	1	45	37	578
BTB	Tea Board	1	91	49	319
BWDB	Bangladesh Water Dev. Board	1	1,065	510	4,768
SRTC	Sugarcane Research & Training Centre	1	69	33	478
	Total	215	527,731	144,025	294,890

/1 This list does not include Railways, Telephone and Telegraph, and financial SOEs. Inclusive of these SOEs, total employment in the entire SOE sector is estimated at 452,578.

/2 BJC was closed in FY93.

Source: Autonomous Bodies Wing, Ministry of Finance.

Development Board, Oil Gas and Minerals Corporation and the Petroleum Corporation. SOEs also play a central role in the transportation sector. The largest SOE capital investments in recent years have been in the power and gas sector (about 55 percent of total SOE investment) followed by the manufacturing sector (30 percent of total) primarily in the Bangladesh Chemical Industries Corporation. The self-financing ratio of SOEs has been only around 8-10 percent in recent years. Ninety percent of SOE financing has come either directly from GOB or as borrowing from the banking system. Annex 6 contains further financial analysis of the SOEs.

1.13 Though SOEs were intended to function on commercial lines and earn an acceptable rate of return on GOB's investment in them, the overall picture is one of negative profitability. The biggest losses are in the Power Development Board (Tk 7.8 billion in 1992/93) Jute Manufacturing Corporation (Tk 3.7 billion), Jute Corporation (Tk 2.2 billion) and Railways (Tk 1.0 billion). Aggregate losses of the loss-making SOEs are in the region of Tk 20 billion, i.e. about 45% of the annual foreign project aid disbursements. SOE losses become in one way or another a charge on the country's exchequer either directly as capital infusions or as write-offs/subsidies to the banking systems for SOE bad debts incurred under GOB guarantees. Total SOE debts to the nationalized commercial banks are estimated at Tk 47 billion (16% of outstanding domestic bank credit). Of this some Tk 29 billion relates to the jute sector and is being restructured under the Jute Sector Adjustment Credit. The elimination of SOE losses could thus have a powerful impact on Bangladesh's public finances and growth prospects. Though the Bangladesh Telegraph and Telephone Board show profits, its performance is inadequate. There is a felt need for a program of reform to introduce competitive pressures on BTTB and to improve its performance and responsiveness to customers. There is similarly the need to improve over all performance of the gas and petroleum sector to enhance efficiency, enable benefits from competition to be attained and to attract capital to support development.

1.14 In sectors where SOEs have a major role, poor performance of SOEs has also tended to depress performance in the sector as a whole. Some of the major factors that affect the operation of SOEs have hurt also the operation of private sector units in the sector. For instance, in the banking sector, where the nationalized commercial banks dominate, the private banks have not been immune from the influence of the government. For competitive reasons, the private banks have perforce to follow the decisions taken by NCBs such as borrowing and lending rates. Consequently, the private banks are influenced by the same major factors as are the NCBs. Again in the jute manufacturing industry, operating conditions such as the inflated prices of raw jute purchases and rising wage levels negotiated in the public sector mills have been equally damaging to the private mills. SOEs thus have a more pervasive and sector-wide impact than their individual losses would indicate.

1.15 The problems that confront SOEs are wide-ranging: lack of autonomy, weak management, revenue pilferage, over-staffing and abuse of overtime, low prices and tariffs, and build-up of debt service obligations. These have been analyzed in an earlier Bank study,[1/] and a synopsis of the peculiar problems of a few selected SOEs is presented in Table 1.2. An analysis of one set of problems --

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1/ *Bangladesh: Selected Issues in External Competitiveness and Economic Efficiency, World Bank, March 1992.*

Table 1.2: BANGLADESH: Synopsis of Problems of Selected Public Enterprises
(Net losses/profits are in year 1992/93)

Textile Mills Corp.	Jute Corporation	Chittagong Water and Sewerage Authority	Inland Water Transport Corp.
Low fixed prices, low capacity utilization, competition from smuggled cloth (through garment industry) and of yarn, overstaffing by more than 15%, wage costs absorb 95% of value added. (Net loss: Tk 959 million)	Price support operations in the face of stagnant export prices, stock piles increased from 250,000 bales in FY90 to 915,000 bales in FY92, commercial bank financing for raw jute purchases reduced to Tk 250 million in FY92 from Tk 1,560 million earlier. (Net loss: Tk 2.2 billion)	System loss about 50%, problems of water unaccounted for similar to those in PDB, public taps (588 in number) run 24 hours a day functioning as open pipes, accounts receivables 9.8 months of total billings of which half is due from Government and public corporations, tariff levels low, over-staffing by more than 50%. (Net loss: Tk 46 million)	Outdated fleet, some vessels over 60 years old, high frequency of vessel disasters, fare pilferage and irregularities in collection system, low tariffs. (Net loss: Tk 47 million)
Steel and Engineering Corp.	**Oil, Gas and Minerals Corp.**	**Railway**	**Biman Airlines**
Markets for products drying up, competition from imports and domestic private sector, over-staffing by more than 10%. (Net loss: Tk 1.0 billion)	Transmission and distribution lines developed but expected demand for gas sale not realized because of slowness in Government approval of projects, projected demand end 1991 is 48 million cubic feet but only 5 million cubic feet commissioned so far, projects chosen on non-economic grounds, heavy interest burden. (Net profit: Tk 648 million)	Ticketless travel particularly on branch line services, passenger tariffs low, operation of uneconomic routes, inability to compete with private trucks because of poor service and high loss rate and pilferage of cargo moved, protracted delays in wagons awaiting crossing of Jamuna river, excessive number of workshops, yards and stations, over-staffing by more than 50%. (Net loss: Tk 1.0 billion)	Two ATP aircraft grounded for 8 months, $1 million paid by Biman for not taking delivery of third ATP aircraft, high purchase prices paid, domestic fares underpriced by about 30%, heavy debt service obligations. (Net profit: Tk 194 million)
Jute Mills Corp.	**Power Development Board**	**Shipping Corporation**	**Road Transportation Corp.**
Run-down equipment, over-priced raw material (raw jute) but stagnant export prices, restrictions on mill closure and on downsizing of capacity, heavy interest burden (Tk 700 million in FY92) on commercial bank debts, overstaffing by more than 25%, wage costs represent 166% of value added. (Net loss: Tk 3.7 billion)	Revenues from 25-30% of power produced lost from collusion between employees and customers (improper billing, illegal connections, incorrect metering, and inadequate collections), high levels of accounts receivables (6.3 months) weak financial management and accounting, and strong trade union opposition to reform. (Net loss: Tk 7.8 billion)	Inefficient operation of fleet, stiff competition from foreign and domestic shipping lines, adverse effects of Gulf war and cyclone, large amounts of accounts receivables, heavy debt service obligations (Tk 420 million a year). (Net profit: Tk 38 million)	Ticketless travel, fare pilferage by crew and staff, operation of uneconomic routes as public service, costs of fuel, wages, tires and spares 25%-75% higher than in private sector, damage to busses during political disturbances. (Net loss: Tk 298 million)

urce: Bangladesh, Selected Issues in External Competitiveness and Economic Efficiency, World Bank, March 1992.

of particular relevance to the present study -- overstaffing and low labor productivity is given in Annex 2. Privatization really began in the mid-1970s with the smaller SOEs being sold to the public under diverse arrangements. The Industrial Policy of June 1982 gave privatization a new impetus. In aggregate terms, however, sale of SOEs did not radically change the share of SOEs in the economy and made only a modest contribution to government's capital receipts. For the 500-odd manufacturing units (factories and mills) that had been disposed of from the mid-1970s, the contracted sales amount was only Tk 1.8 billion.

1.16 In an effort to secure more broad-based support for privatization, a scheme of partial divestment was introduced by the Denationalization Amendment Ordinance of June 1987. The benefits anticipated from this partial divestment program were not, however realized. With GOB still having effective control over the enterprises, the 'government agency' mentality still pervades the operations of these enterprises. Disenchantment with these reform efforts is reflected in the present Government's shift in policy towards SOEs. Under the Industrial Policy of 1991, airways,railways, production and distribution of electricity and telecommunications were reserved for the public sector. In all other sectors the intention was to gradually privatize SOEs. One hundred percent of the shares in government-owned industries will be sold wherever appropriate. Foreigners could invest in shares through the stock exchange and 100 percent foreign ownership of enterprises is allowed in any part of the country. In a more recent policy shift, the list reserved for the public sector has been curtailed further to allow private investment throughout the power and telecommunication sectors, and to reconsider the need for reserving activities such as air transport, railways and export-oriented defence industries.

1.17 Under the 1991 Industrial Policy, GOB identified 40 enterprises for privatization. At the April 1992 Aid Group Meeting GOB made a commitment to privatize a significant share of these enterprises expeditiously. Of the 40 enterprises identified in October 1991 by GOB for privatization, sale of 6 units was completed by mid 1992 through sale of shares to a wholly state-owned insurance company, and privatization of only 3 other units has since been completed. Again, the ADB's Industrial Sector Program Loan requires that 10 textile mills and 6 other industrial units be offered for sale by December 1992, and an equal number by December 1993. The Ministry of Industries met the December 1992 requirement by offering 13 units for sale, but the Textile Ministry offered 9. The numbers here refer only to offers for sale, not to how many sales were consummated. In general there appears to be considerable delays on the part of GOB over the privatization program.

1.18 At the April 1993 Aid Group Meeting the understanding for FY94 is that GOB would accelerate privatization of SOEs by completing privatization of at least 50% of the 40 industrial units earlier slated for divestiture and of 24 textile mills now intended to be added, by carrying out the first phase of privatization under the jute sector reform as well as by signing contracts for initial private investments in electricity, gas and telecommunication sectors.

Privatization: Some macro-economic aspects

1.19 State-owned enterprises (SOEs) in Bangladesh account for a significant share (over 25%) of total fixed capital formation and for about 6% of GDP. (Refer Table 1.3) The position of

SOEs in Bangladesh is similar to that of other low-income Asian countries where the share of SOEs in GDP average just under 10% and where SOEs contribute about one-third of total fixed capital formation.[1/] The share in GDP in Bangladesh is lower as agriculture, trade and services, which account for over two-thirds of GDP, are predominantly in the private sector; the public sector contributes less than 8% to value added in agriculture and service sectors. SOE employment stands at around 600,000, compared to 1 million in the central government and to a total of 4.8 million in formal employment and to 50.7 million in the total labor force. Though the share of SOEs in GDP and employment is relatively small, SOEs have had a far-reaching impact on the state of the country's public finances and on overall growth prospects.

Table 1.3: Bangladesh: Contribution of Public Sector Enterprises to GDP, 1991-92

	Contribution to GDP	Contribution of Public Sector Enterprises	%Contribution of Public Sector Enterprises
	Tk Million	Tk Million	%
Agriculture	316,723	294	0.1
Crops	228,620	259	
Forestry	31,005	**Included in Manu.**	
Livestock	27,376		
Fisheries	29,722	57	
Industry	150,168	21,505	14.3
Mining & Quarrying	120		
Manufacturing	82,571		
Large Scale	49,347	11,399	
Small Scale	33,224		
Construction	53,466	177	
Power, Gas, Water and Sanitary Services	14,011	9,929	
Services	436,396	33170	7.6
Transport	102,456	3,084	
Trade Services	73,667	6,880	
Housing Services	79,066	143	
Public Admin. & Defence	42,375	7,185	
Banking & Insurance	17,793	14,768	
Professional & Misc. Services	121,060	1,110	
GDP at Market Prices	903,287	54,969	6.1

Note 1: included in public administration
Source: Bangladesh Bureau of Statistics and Budget of Autonomous Bodies 1992-93, Monitoring Cell, ABW, Ministry of Finance and Staff Estimates.

1/ *David Newberry, The Role of Public Enterprises in the National Economy, Institute for Policy Reform, 1992.*

1.20 The largest number of SOEs (154) are in the manufacturing sector and cover industries such as textiles, steel and engineering, food, chemicals and jute. Nevertheless SOEs in the manufacturing sector represent only some 15% of the value added in Bangladesh's manufacturing sector. The sectors where SOEs are dominant include electricity, gas and water (71% of value added), railway and telecommunications (nearly 100%) and banks and insurance (83%). This concentration of SOEs in capital intensive sectors, again corresponding to the experience of other low-income Asian countries, helps to explain the relatively high capital intensity of SOEs (defined as the ratio of their share in total fixed capital formation to their share of value added in GDP).

1.21 To gauge the macro-economic effects of privatization, it is necessary also to estimate the potential net worth of state-owned enterprises in Bangladesh. Net worth estimates are problematic as they depend in part in the overall business environment and the risks as perceived by potential investors. Furthermore value of SOEs are contingent on their outstanding liabilities and separation payments that may become due to redundant workers. Subject to these limitations, an upper limit of the net worth of SOEs may be in the region of US$3.6 billion. *These estimates are purely indicative and aim only at establishing orders of magnitude of SOE values.* Valuation of individual SOEs for privatization will require considerable further detailed analysis and evaluation. Two SOEs--Bangladesh Power Development Board and Bangladesh Telegraph and Telephone Board--represent 51% (US$1.85 billion) of the aggregate net worth of all SOEs. The utility and infrastructure sector in total is estimated to represent 80% of the value of all SOEs. The manufacturing sector is 12% and the remainder dominated by financial institutions and transportation companies is 8% of value.[1/] The valuations here though subject to limitations, do clearly establish the dominant position of the three large SOEs and the relative ranking and scale of the others. The estimates represent the upper-bound value of the SOEs. They assume in many cases substantial restructuring and revitalization, e.g., BPDB and the NCBs. In terms of the revenues that could be raised by a privatization program of the SOEs as they stand at the moment, the GOB would be lucky to receive 50% of this value. Changes in the enabling environment could improve the yield by lowering the present risks. To provide a macro-economic perspective, the potential net worth of SOEs of US$3.6 billion is to be compared with the GDP of Bangladesh of $24.3 billion (14.8%) government expenditures of $4.5 billion and government revenues of $2.8 billion. Net worth of SOEs at 15% of GDP is more than twice the SOE contribution to GDP of around 6%.

1.22 *Privatization and likely effects on Savings and Investment*. Assuming gains in efficiency following privatization, growth rates will rise if the same level of investment is retained. An issue that arises here is whether investment rates will fall following privatization. In the early and mid 1980s the public savings ratio was higher than the private investment ratio, and in these circumstances, privatization could have resulted in some reduction in total investment levels. However, since the mid 1980s the private/public investment ratio have been reversed with the decline in public investment ratios. (Refer Table 1.4). As the private propensity to invest is more than the

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1/ *Net worth of the top 20 SOEs were ascertained by a staff review of the financial statements of each SOE. In the valuation of other industrial corporations, the technical assistance studies by the ADB were used extensively. Other SOEs were valued taking net asset figures. The primary method used was net book value. In some utilities long run marginal cost could be calculated. In other entities profitability was sufficient to justify a capitalization of earnings approach. Negative value entities were valued at nil. In general, the valuation takes an optimistic view of the potential of the SOEs and therefore the global value represents an upper limit.*

public propensity to invest, a decline in total investment ratio is not to be anticipated in the aftermath of a privatization program.

Table 1.4: Bangladesh: Savings and Investment
(percent of GDP)

	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92a/
Consumption	98.4	97.0	96.8	97.4	98.0	98.0	97.0	96.2
Investment	12.8	12.3	12.5	12.0	12.2	12.1	10.4	10.3
Public	7.4	6.7	6.3	5.6	5.7	5.7	4.6	4.7
Private	5.4	6.0	6.2	6.4	6.5	6.4	5.8	5.6
Domestic Savings	1.6	3.0	3.2	2.6	2.0	2.0	3.0	3.8

a/ Preliminary estimates
Source: Bangladesh, Implementing Structural Reform, March 1993, IBRD

1.23 The effect of privatization on the public sector savings rate is also an issue of interest. With more of the SOEs being transferred into private sector hands, GOB can reduce its capital transfers that have hitherto financed capital investments of SOEs. With the growing demands for public investment in the social sectors, particularly in health, population, nutrition and education, government's capital investments can increasingly be shifted to these areas, with no resulting reduction therefore in the aggregate levels of real public investment. Higher levels of current expenditures too would become feasible in a less constrained public investment context, and this could in turn promote higher investments in the social sectors. Progress in human development--education, health population and nutrition--has been hampered by financial constraints as well as by institutional weaknesses, and public expenditures in these areas have not grown beyond a mere 2.5% of GDP since the early 1980s. Health, population and family planning expenditures, for instance, are still less than $2 per capita per annum in Bangladesh compared with $9.2 in Sri Lanka, $12.5 in India and $11.0 in China. Relieving the financial constraint will in turn also contribute to addressing the institutional weaknesses through improvements in restructuring the administrative and civil service systems and better the reward of incentive schemes for efficient operation of these services.

1.24 Interwoven with improved human resource development is the overarching objective of poverty reduction and expanding social safety net programs. With the relatively slow growth of the economy, poverty reduction has remained one of the more elusive goals of public policy in Bangladesh. The percentage of the population unable to afford a minimum basic diet has remained at about 50% over the past decade. Due to shortage of resources successive governments of Bangladesh have had to institute severe cuts (averaging more than 50%) in poverty alleviation expenditure in the country's Five-Year Development Plans. Notwithstanding this, public programs targeted at the poor have been expanded since the mid 1980s, and about 5 million people now benefit every year from the combined programs of relief, Food for Work and Vulnerable Group Development. But these are insufficient to make a dent in the incidence of poverty. Besides, the full benefits of poverty-directed programs have not always reached the poor. Financial constraints,

which have hobbled poverty alleviation programs in the past, could continue to do so in the immediate future. But with greater availability of public resources following privatization, and better targeting of poverty reduction efforts, a more concerted attack could be launched on the incidence of poverty and this could emerge as one of the tangible results of Bangladesh's privatization program.

International Trends Towards Privatization and Reasons

1.25 The international disenchantment with SOEs developed during the 1980s and there has been a marked trend away from SOEs towards divestiture. More than 8000 SOEs have been privatized in over 80 countries in the past 12 years. The main reasons for this shift towards divestiture are:

(a) *Rising and unsustainable fiscal burden*: Many countries were simply unable to continue sustaining the financial losses of the SOEs. These large and unsustainable fiscal burdens of SOEs forced governments to divest their portfolio of public corporations in favor of the relatively efficient private ownership. The difficult economic conditions of the early eighties also contributed to a reassessment of the role of the public sector in many countries.

(b) *Assertion of Control*: The unrestricted growth of SOEs combined with independent access of SOEs to international capital markets led to the stockpiling of large amounts of external debt. This led to the government ministries trying to rein in independent SOEs by curbing their expansion and limiting their autonomy to borrow.

(c) *Shifting International Opinion:* The decline of communism in Eastern and Central Europe led to a re-evaluation of the SOE sector, thus contributing to an international shift against the dominant role of the state in the economy. Past performance of SOEs were evaluated and their excesses were well publicized. SOEs came to be viewed as a relatively ineffective means for achieving distribution of income in society. The international lending agencies were influenced greatly by the opinions in favor of privatization and contributed towards it. IMF and World Bank structural adjustment loans inevitably came with conditionality clauses promoting the sale of public enterprises.

(d) *Success of export oriented growth strategies:* The export oriented strategies of the East Asian countries of Taiwan, Korea, Hong Kong and Singapore have been recognized as economic success stories. Import substitution policies of which SOEs were a part were discredited. Historically SOEs have been minor players in the export market. This has led to countries wishing to pursue an export oriented approach to rely heavily on the private sector as being the principal driving force behind this strategy.

(e) *Development of the regulatory framework for privatization:* In many countries, projects that have traditionally been handled by the public sector are now increasingly

undertaken by private enterprises due to the development of regulatory mechanisms which did not exist in the past. For instance, banks in most developing countries were run by the state, but now many countries, e.g., India, Indonesia, and Pakistan are aggressively pursuing a policy which calls for the deregulation of their financial sector.

(f) *Potential for revenue generation:* The appeal of privatization has also been enhanced by its ability to raise short term revenues. The potential for these gains to the government is a motivating factor for policy makers in many countries to pursue a policy of privatization.

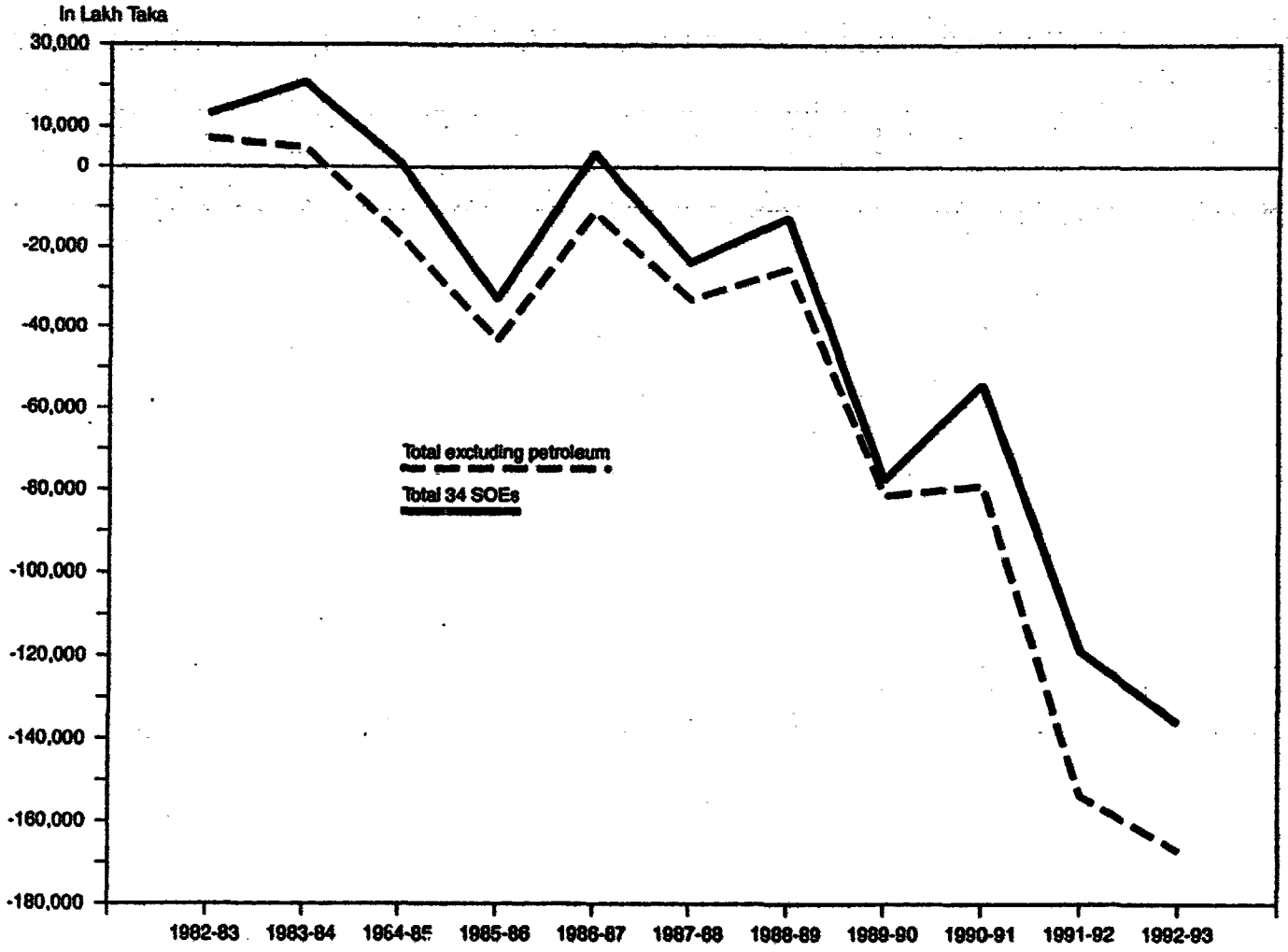
Rationale for Privatization in Bangladesh

1.26 The rationale for privatization in Bangladesh is based, primarily, on three inter-related classes of reasons: the positive effects on government's fiscal situation; improvement in the efficiency of enterprises following privatization; and signaling effects that will promote greater investment, and consequently higher growth in the medium-term. Privatization is also an important element of GOB's overall market-oriented adjustment strategy, with privatization and market-based reforms mutually reinforcing one another. As with a reform program of this magnitude the benefits of privatization, while enduring, will become evident with some time lag.

1.27 *Fiscal Considerations*. Although efficiency is the primary objective of any privatization exercise, the factor motivating most countries of the world is the inability to sustain losses of the SOEs. In addition to stemming losses and reducing subsidies there are other ways in which privatization can positively affect the fiscal situation of the government. The extent of losses of SOEs in Bangladesh and the potential beneficial effects on public and private sector investment by the elimination of these losses has already been alluded to. The trend in the profits for the SOE sector as a whole for the ten year period 1983 to 1993 is summarized in Chart 1.1. The story is basically one of continuous and sustained decline. Starting from profits of Tk 1.3 billion in 1982/83, the SOE sector's overall return plunged to a loss of Tk 7.7 billion in 1989/90, Tk 11.9 billion in 1991/92 and to Tk. 13.6 billion in 1992/93. Once the profits of the petroleum monopoly BPC are excluded, these losses rise to Tk 15.4 billion in 1991/92 and to Tk 16.7 billion in 1992/93. In profit-making SOEs the case for privatization is no less compelling. Profits earned such as the Tk 3.3 billion profit registered in telecommunications in 1992/93, disguise the huge inefficiencies and leakage of funds under state ownership. The September 1993 average wage increase of 17% awarded to SOE workers is expected to increase the wage bill further. For six major SOEs, for instance, the wage bill will rise by Tk 2.6 billion; of this Tk 1.6 billion is to cover retroactive payments for previous years. SOE losses have now grown to such proportions that Bangladesh could, for instance, finance entirely from its own resources a Jamuna Multi-purpose Bridge project every 18 months if this SOE hemorrhage could be arrested. Not only will SOE losses be eliminated, privatization could also bring about an expanding revenue base from a growing private sector.

1.28 Another source of positive fiscal impact, and one that has been motivating governments to privatize, are the proceeds generated from the sale of SOEs. The exact amounts of proceeds generated depend upon the scope and type of firms divested. However, certain successful

Chart 1.1: Trends in SOE Profits 1983-93



Source: Ministry of Finance.

privatizing countries have been able to raise large sums, which in turn provided badly needed funds for infrastructure development and paying off public debt.[1/] In the first phase of privatization in Bangladesh, however, SOE net sales proceeds are not likely to be considerable. The SOEs being initially offered for sale are those in manufacturing with substantial debt and long-term liabilities. These also happen to be the most labor intensive (accounting for more than one-third of the total SOE workforce) so that voluntary separation and redundancy payments will be considerable, and net sales proceeds may be modest. Divestment of more profitable SOEs including some of the utilities may however yield considerable returns. It is essential that proceeds of privatization should not be treated as revenue, but as a capital item and be used to finance capital-type transactions. Typical uses could be to retire government debt or outstanding liabilities of SOEs, finance severance payments, and investment in local projects with local financing of recurrent costs.

1.29 *Improvement in Efficiency*. The principal argument in favor of privatization is improvement of efficiency under private ownership. This argument is developed in the Bangladesh context by first looking at the difficulty of reforming SOEs and the problems of conflicting objectives and poor incentives. Then, empirical evidence is presented to strengthen the argument for privatization. The empirical evidence is based on scope for improvements as well as observed superior performance under private ownership across a wide rage of efficiency indicators and industry groups.

1.30 *Difficulties in improving efficiency under public ownership*. Principles of economic behavior can be used to analyze why state-owned enterprises are not as efficient as their privately-owned counterparts. State-owned enterprises have a multiplicity of goals, suffer from frequent changes in direction and are not accountable for failure. In Bangladesh a survey of SOE managers showed enterprises have a wide range of objectives (Table 1.5); maximizing profits being a dismal fifth out of six objectives. Laudable but unfocussed objectives of contributing to national development and providing employment were ranked higher. No enterprise can hope to compete with the private sector when profit maximization is not their primary objective. This of course assumes a competitive environment.

[1/] *(a) In Argentina, the government had, by December 1992, received over US$ 5.3 billion in cash. The planned sale of the shares in the oil company YPF is expected to raise several additional billion dollars in 1993 and beyond. If annual payments for grant of concession rights and expected dividends on retained minority share holdings are included the government's returns will be even higher. Since the Argentine government has focused on reducing its public debt from privatization proceeds, they have managed to reduce the public debt by about $6.8 billion in terms of face value plus 2.6 billion in terms of cash equivalent amounting to a estimated face value reduction of about US$ 12 billion. The Argentinean privatization program is remarkable both for its speed and its scope. Within a couple years, Argentina has privatized large units such as airlines, power, steel, natural gas, oil fields and ports.*

(b) In UK, the British treasury raised about $60 billion from their privatization program. This included the sale of petroleum, telecommunications, gas, airways, automobile (Jaguar and Rolls Royce) and steel. In a dramatic departure from the norm Britain also plans to sell off the Post Office -- and raise another $10 billion (Most of Britain's sales have been through stock flotations; one result being the increase in the share holder class from 2 million in 1979 to about 13 million in 1991).

(c) Chile, one of the early success stories of privatization also demonstrates the potential to raise revenues from divestiture. The combined earnings of Chile from its privatizations up to 1990 were $3.4 billion. It earned $1 billion in 1973-74 by selling 350 companies. From 1975-82 it sold another 135 companies and 16 banks and earned another $1.0 billion. In the final, most ambitious phase, between 1985 and 1989, Chile sold some firms considered "strategic" in the past and earned over almost $1.5 billion in the process.

Table 1.5: Survey of Manufacturing SOE managers objectives

Objective	Ranking	BCIC	BSEC	BTMC	BSFIC	BFIDC
Contributing to national development	1	4	1	1	1	1
Providing goods to customers	2	1	2	3	3	3
Providing employment	3	3	4	2	6	2
Providing revenue to government	4	2	3	4	5	4
Maximizing profits	5	5	5	5	2	5
Developing local area	6	6	6	6	-	6

Source: Enterprise Survey ADB TA 1636

1.31 Government policies are subject to change not only with changes in governments, but also with changes during the course of a government's term of office. As SOEs often provide basic services which affect the populace at large, issues such as service levels, prices or tariffs can quickly enter the public arena. SOEs have less ability when compared to their private sector counterparts to manage these political pressures.

1.32 Even if government manages to focus their SOEs on profitability and desist from meddling in the day to day operations, SOE management are not truly accountable for failure. Capital markets assume government guarantee of bank borrowings even if no explicit government guarantee exits. Therefore capital markets do not penalize poor performance by refusing credit or pricing credit at premium rates to reflect higher risk. Nor do suppliers of necessary materials refuse supply.

1.33 *Low productivity, high costs and poor services of SOEs and scope for improvement.* Analysis of the SOE sector shows there is significant scope for efficiency gains. These gains can be categorized under the following headings; (a) productivity improvements; (b) investment in technology; (c) management strengthening; (d) market effectiveness; (e) market based pricing; and (f) collection of revenue.

1.34 Productivity studies based on best existing practice show significant improvements are possible. One study of 108 manufacturing SOEs in Bangladesh showed that cost savings achieved from eliminating redundant employees would be high enough to turn 12 loss-making SOEs into profitable ones. This suggests the tremendous scope for improvements and financial turn-around under private ownership and vigorous reform measures (refer Box 1 and Annex 2). New equipment and technology is rated by most SOE managers as an essential element for better performance. Management have never been required to operate in a fully commercial environment and as a result are inadequately skilled. Many SOEs have been managed for production and have not necessarily produced goods in the quantity or specifications required by the marketplace. Prices have not always been set by the market, in many cases they have been dictated by government decree. SOEs have performed particularly poorly collecting revenue due to them. The high system losses at the BPDB are one such example.

1.35 The poor performance of the SOEs has caused an upward shift in the production cost structure in Bangladesh, and goods and services supplied by SOEs have become uncompetitive in

domestic as well as international markets. The high systems loss in the Power Development Board (ranging from 35-40%) has led to successive increases in power tariffs, resulting in cross-subsidization of residential users by commercial and industrial users. Investment in the power sector has been insufficient to keep up with the rising demand due to weaknesses in BPDB organization. As a result Bangladesh has one of the lowest consumption levels and highest prices of electricity in the region. Accompanying this is the high risk of technical failure due to overloading and lack of maintenance. Private sector firms have in recent months recorded production losses of up to 30% due to power outages. Telecommunications is another utility (monopoly) service which is known for its poor services and high costs. Currently there are over 100,000 applications waiting for telephone connections, notwithstanding a high deposit fee.

1.36 Poor quality and high price of yarn supplied from the Bangladesh Textile Mills Corporation (BTMC) has contributed to the rapid decline of the handloom industry and has encouraged smuggling. BTMC also failed to supply fabric to the ready made garments sector which depended entirely on imports for its rapid export growth. A dynamic textile industry, supplying materials to the ready made garments sector could have helped to increase value addition in garment exports by another 10-20% resulting in increased domestic employment and net foreign exchange earnings. All SOE paper mills are old and have higher costs of production compared to other countries. Prices for paper and newsprint have been raised to cover costs of wastage and inefficiencies. Publishing costs are higher in Bangladesh that in neighboring regions - West Bengal in particular. It is likely that the publishing industry would have flourished in Bangladesh if cost of paper was competitive.

Box 1: Turn around following privatization of an SOE

The case of Kohinoor Chemical Co., a manufacturer of soaps and cosmetics--one of the three SOEs privatized under the current privatization program--provides a graphic illustration of how productivity and efficiency in operations can turn-around following privatization. GOB's 51% shareholding in this company was divested to the highest of four bidders in July 1993, eight months after the tender was floated. The other 49% of shares had been divested to the public in 1988 following a share floatation in the open market. Under state ownership Kohinoor Chemicals had incurred losses over the las three years. Annual sales had declined from Tk 1 million in 1989 to Tk 270 million in 1992 with poor management and marketing. The workforce had grown to 1,200, as against the actual of 350 as estimated by the new private owner. Even so the state company had incurred an overtime bill of Tk 1 million per month. Typifying management laxity was the employment of 27 drivers for the company's 5 cars, with the drivers and security staff claiming overtime averaging Tk 300,000 per month.

Following privatization, 650 of the 1,200 employees joined the privatized company (twice the number needed), the balance either transferring to another SOE (BCIC) or leaving with separation benefits. In the privatized company, overtime has now been completely eliminated. To demonstrate labor productivity, the workforce are organized in two batches. Each batch works alternate weeks while the other batch sits idle. Total production has increased by 30%-a five-fold increase in output per worker - and sales have grown by over 50%. Economies have been achieved in other areas too. For instance, procurement costs of deodorized palm oil--the main raw material--have been axed from Tk 30.50 per kilo to Tk 23.50. The company is enjoined to retain the labor force for a minimum of one year. However, it has offered continued employment to all workers provided the company turns profitable and is able to expand.

1.37 ***Superior Private Performance***. The limited evidence from Bangladesh that does exist shows (a) listed companies on the stock exchange significantly outperform the SOE sector in profitability terms; (b) the private sector on average uses fixed assets more efficiently than the public sector; and (c) private sector jute mills are more efficient than their public sector counterparts.

1.38 *Proportion of profitable firms*. The first type of comparison undertaken is the proportion of profitable firms in the public and private sectors. Unit-level data on SOEs is used to calculate the percentage of firms within the public sector. The sample of firms for the private sector are taken from the stock exchange. The results of the exercise are summarized in Table 1.6 and Chart 1.2. Only 35 percent of 189 SOEs included in our sample are found to be profitable. A disaggregation of the data reveals that in all industries where comparisons are possible -- textile, jute, chemicals, food and engineering -- a higher proportion of private sector firms are profitable as compared to public sector firms.

1.39 The best proxy for the private sector is the stock exchange and the foreign sector, as they are the only section of the private sector where financial reporting can be relied on. One needs to be mindful of Bangladesh's financial reporting practices where disclosed profits of the private sector are generally agreed to be significantly discounted. One estimate suggests the discount may be as much as 80%. Little can be drawn from the results of businesses. One assesses risk based on knowledge of the individual behind the business and the sector in which the business operates.

1.40 *Value-added per unit of fixed assets*. Value added and fixed assets data is available in the Census of Manufacturing (Annex 7). Comparisons are undertaken for eight industrial groups in which private and public sector both operate in a significant way. Several qualifications should be borne in mind before making judgements on relative efficiency on the basis of presented data. The fixed asset data are based on book values and may not be reflective of the fixed "capital" that managers have to work with, thus it is an imperfect proxy for the capacity of the firms. However, as this bias and direction are likely to be true for both private and public firms, the direction of the bias becomes difficult in determining a priori. If, however, government owned firms are older on average, which they most likely to be, then net fixed costs based on book value -- due to accounting depreciation -- will appear to be less than the actual capacity of the firms. Secondly, value added is output minus intermediate inputs. Thus it excludes the employee expenses and interest cost. To the extent that government owned companies are relatively overstaffed this will have the effect of making SOEs look better than, say, a comparison based on an alternative numerator that accounted for such costs as operating surplus or gross profits.

1.41 Annex 7 summarizes the results. In no case are government firms doing significantly better than private sector ones. Only in food manufacturing do government firms have a slightly higher value added per unit of fixed assets. In all other instances the private sector is either doing significantly better (five industry groups) or the performance is relatively similar.

1.42 *Labor productivity in jute mills*. A recent study on the jute sector provides data on relative labor productivity under private and public enterprises.[1/] The results presented in Annex 8 for the years between 1984 and 1991 confirm the hypothesis of relatively higher labor productivity under private ownership. The average differential in labor productivity over the seven year period has been around seventeen percent. This difference has remained relatively unchanged during the period of the study.

1/ *See (JUMS), 1992.*

Table 1.6: Profitability of Private Enterprise Compared with SOEs

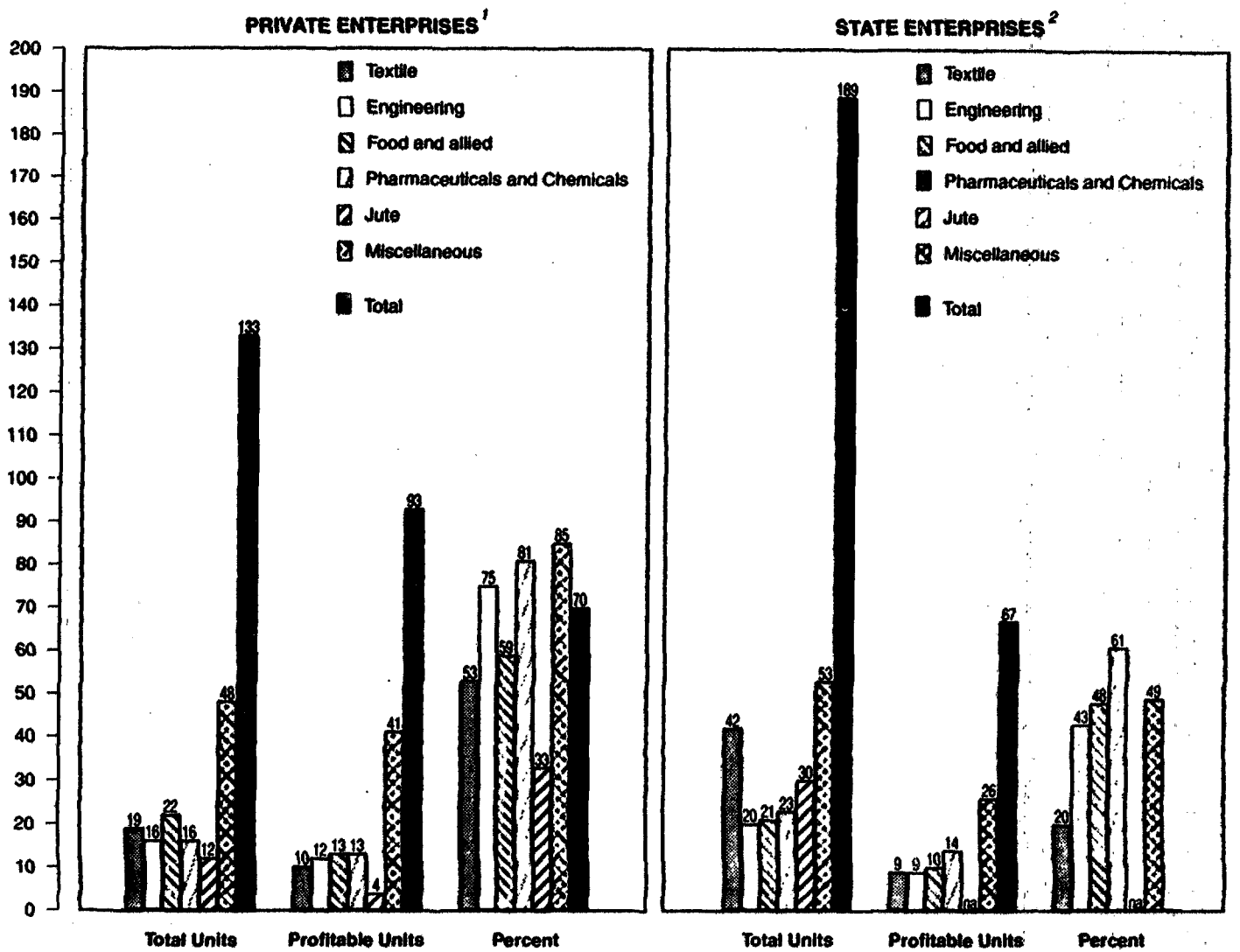
	Private Enterprises 1			State Enterprises 2		
Industry	Total Units	Profitable Units	Percent	Total Units	Profitable Units	Percent
Textile	19	10	53	42	9	20
Engineering	16	12	75	20	9	43
Food and allied	22	13	59	21	10	48
Pharmaceuticals and Chemicals	16	13	81	23	14	61
Jute	12	4	33	30	na	na
Miscellaneous	48	41	85	53	26	49
Total	133	93	70	189	67	

na: Not available.
Source 1: Stock Exchange Review, July-September 1992: Dhaka. Stock Exchange Limited, Figures are for years 1989-91.
Source 2: Estimated from unit level data acquired for this exercise. Figures are average of 1990-91

1.43 *Positive Effects on Private Sector Development*. Privatization of the SOEs is an important contributor to private sector development. Whilst the past privatization program can be criticized from the stand point of being over-generous to buyers at times, it has contributed significantly to the development of the formal private sector in Bangladesh. At independence Bangladesh's formal private sector could be classified into three segments; (a) a small group of wealthy families whose wealth was primarily trade based; (b) a larger middle to lower class of merchants and service providers and; (c) a rural land owning class. Since independence the combined processes of asset repatriation and privatization have helped lead to the expansion of the first two segments and the creation of a fourth segment of entrepreneur. There is substantial anecdotal evidence that this segment was started through access to credit from the first privatization program. The earlier privatization yielded Tk 2 billion (US$60 million). This new segment is estimated to now have US$600 to $700 million of capital available for new investment. The challenge the GOB faces is to create an investment climate where these entrepreneurs will re-invest in Bangladesh and thereby further stimulate private sector development.

1.44 Privatization could assist private sector development in several ways; (a) by improving the efficiency and effectiveness of the financial, utility and transportation sector, key inputs become available on a timely, market priced basis; (b) by mobilizing funds for investment that would otherwise be diverted to other countries, or simply never see the light of day; (c) by helping to attract new technology and management techniques to Bangladesh by providing opportunities for foreign investors; and, (d) by sending a strong signal to the existing private sector that government is committed to increasing the private sector's role in the economy, and is withdrawing from competing with it. Privatization alone will not improve the efficiency and effectiveness of entities which do not face full market discipline. In the case of monopolies regulatory mechanisms need to be put in place to ensure monopolists provide services the market place requires and are not able to extract monopoly rents from their tariffs.

Chart 1.2: Profitability of Private Enterprise Compared with SOEs



Source 1 Stock Exchange Review, July-September 1992 Dhaka Stock Exchange Limited. Figures are for years 1989-91.

Source 2 Estimated from unit level data acquired for this exercise. Figures are average of 1990-91.

1.45 Analysis of the capital market shows the mobilization of both foreign and domestic investment has been minimal. Privatization helps in two ways. First it provides an opportunity for both foreigners and locals to invest their funds. Second, it helps develop the capability of the market, particularly the stock market. This would be facilitated by increasing the number of equities listed on the market as well as the number of shareholders and no less through imposing demands on the regulatory and technological capacity of the stock market. A larger market brings with it more resources, greater liquidity and more sophistication.

Post Privatization Experience: International Evidence of Efficiency Gains

1.46 The evidence on the benefits of privatization and relative gains under private ownership is beginning to accumulate from the experience of many countries. Some of the key findings related to the beneficial consequences of privatizations are discussed below:

(a) *Four Country Study*: A recent World Bank study evaluated the ex-post performance of twelve privatized firms in four countries, UK, Chile, Mexico and Malaysia. The main results, summarized below, lend strong support to the hypothesis that gains to society from privatization are likely to be high.

1. In eleven out of twelve cases studied, the overall improvement in welfare was positive. The only exception was the airline in Mexico.

2. The magnitudes of the gains to society were significant. The average annual gain was equal to twenty six percent of pre-divestiture sales. In seven out of twelve cases the welfare gains to society exceeded ten percent. In the case of three firms, an airline in Mexico, a container port terminal in Malaysia and Telmax, Mexico, the net change in welfare was close to or greater than fifty percent.

3. In attempting to identify the beneficiaries and losers in the process of divestiture the studies found: (i) Even when foreigners are allowed to participate, the domestic groups benefitted -- as they did in all but one case, Aero Mexicana; (ii) Buyers benefited in all instances while the government too usually benefits. In nine out of twelve cases the immediate fiscal impact on the government was positive; (iii) In a finding that is of considerable relevance to Bangladesh, the study found that in none of the twelve cases studied were the workers the losers in the process of divestiture. In several instances the workers gained substantially, as for instance from appreciation of shares in UK's freight company, Mexico's Telecom and Chile's Enersis; and from higher wages after divestiture in Malaysia's container terminal.

4. The sources of welfare enhancing changes after divestiture were: (i) improvement in productivity. In nine out of twelve cases productivity increased significantly and did not decline in any; (ii) increase in investment spending by private buyers which led to reduction of unfulfilled demand. For example, Chile Telecom doubled its capacity in five years after privatization. This is also a finding of immense relevance to Bangladesh where infrastructure bottlenecks are severely constricting and where the

government resources for expansion are limited, divestiture opens up the possibility of increased investment by new buyers. (iii) The final source of improvement in welfare was the rise in prices in four out of the twelve units. These price increases were largely welfare enhancing because they represented movement towards more efficient resource allocation.

(b) *Argentina Case Study*: In Argentina, the cost of installations of new telecommunications lines fell by two thirds. Planned tariffs are likely to reflect the positive impact of these improvements: telephone rates are likely to fall two percent per year in real terms, and water rates by as high as 27 percent. The critical reason for privatization is the lack of funds for expansion and modernization by the government. Under new private owners, preliminary estimates of annual investments in the newly privatized firms are 3-4 percent of the GDP or equivalent to half of all investment.[1/] These new investments, with accompanying multiplier effects are likely to promote overall growth in the economy and diminish the constraint on the provision of infrastructure.

(c) *Mexico Evidence*: In Mexico 62 firms privatized in the petrochemicals and auto parts sector were able to substantially increase their investments,[2/] adopt better financial management techniques, improve the technology, and reduce the numbers of managerial staff.

(d) *International Study*: An international study covering 15 countries and 41 firms found substantial efficiency gains after privatization. The firms increased their profitability (measured as return on assets); achieved higher rates of capacity utilization and better financial position by reducing their leveraged positions.[3/]

Post-Privatization experience: Bangladesh

1.47 The results of the studies on the post-privatization performance of firms in Bangladesh have been inconclusive on the question of relative efficiency. One study (Lorch, 1990) evaluates the post-privatization performance by undertaking a cross-sectional comparison between firms that were privatized and those that remained within the public sector. The principal finding was that private sector firms slightly outperformed public sector firms in terms of "static efficiency" while there were no significant differences in "dynamic efficiency". Private sector firms generally did well in

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1/ *Source is Alexander and Corti, Argentina's Privatization Program, August 1993.*

2/ *Their investments were as high as 75 percent of the value of sales over the three year period (quoted in Kikeri, Nellis, Shirley (1992).*

3/ *See Megginson, Nash, Randenbrog Efficiency Gains From Privatization, 1992. The study analyzed the post-privatization experience of 41 countries sold through public share offerings.*

expanding sales and marketing; but the public sector had advantages in procurement due to quantity discounts available to the BTMC. The author attributes the less-than-stellar post-privatization performance to several factors including uncertain investment climate, government's inability to restrain the militant unions, and the managerial style of the Bangladesh private sector.

1.48 The performance of large scale divested units, particularly the textile mills, based on enterprise level trends in production, and financial performance of the mills, has been of mixed results. Even though production declines have taken place in a higher number of private sector mills, the magnitude of the decline is greater in public mills. Although comparison with public mills was not undertaken, information provided by private sector management showed declines in post privatization performance based on some indicators such as efficiency measured in terms of per spindle per shift and per loom per shift. Financial performance improved in 17 of the 24 privatized units in the three year period following privatization in 1981-82. However, more recent data provided by the private sector suggest that these firms have not continued to increase their profits. The conclusion summarized is that, "...performance of both public and privatized mills in the large scale textile subsector have been far from satisfactory. On a comparative scale, it is difficult to evaluate the overall income of the divestiture by restricting analysis only to these data which shows that privatized mills have performed better in some respects and lagging behind their public counterparts on other scores."[1/]

1.49 Information on the performance of 497 small and medium industries that have been divested since independence remains limited despite a survey undertaken by the Ministry of Industries in December 1990. The results of the survey show that 49 percent of the divested units have closed down since divestiture. This information can be used both by the proponents and opponents of divestiture to their advantage. Closure of the units can be used as a sign of the failure of divestiture. Alternatively, and more plausibly, closure represents a shift to the better allocation of these resources, i.e. land and factory-building assets. A sample survey undertaken by the mission of divested units in the Tejgaon area shows that 18 units are conducting alternative operations. The economic impact of the closure of divested units has been positive in reducing the drain on the public exchequer. The closure of these units has also paved the way for alternative, more market sensitive use of the assets in the private sector.

1.50 An evaluation of the privatization of Uttara, Pubali and Rupali banks also provides some lessons for the general privatization program. Privatization did not lead to an improvement in service, efficiency and productivity, primarily because the necessary management changes and improvements were not affected. This contrasts with IFIC where GOB holds a 40% minority shareholding. IFIC is recognized as being among the better managed private sector banks. The lesson learnt in this sector is that post privatization efficiency gains are largely dependent on the introduction of competent management.

1/ *Experience with Earlier Privatization Program: An assessment of the economic performance of the Divested Units; Binayak Sen.*

1.51 Many commentators in Bangladesh have charged the privatization program to date with failure. They cite a track record of loss making and closed enterprises as evidence. Refer Table 1.7. Leading commentators claim this is because of the manner in which privatizations were carried out and the lack of capability of the private sector. The private sector, they believe, has neither established its efficiency or its honesty. The entrepreneurial tradition in Bangladesh is seen as weak. In essence they argue there is no evidence in Bangladesh that the private sector is any more efficient than the public sector.

Table 1.7: Summary statement on present status of Disinvested Industrial units Surveyed by BOI officials (position as on 1/1/92)

Sl. No	Location of industrial units	Total units disin-vested	Total units surveyed		Present position of the surveyed units					
					In production		closed		No trace	
			Nos.	%	Nos.	%	Nos.	%	Nos.	%
01.	Greater Dhaka District	210	206	98.09	95	46.12	53	25.73	58	28.15
02.	Greater Chittagong District	117	117	100	62	52.99	36	30.77	19	16.24
03.	Greater Rajshahi District	5	5	100	1	20.00	-	-	4	80
04.	Greater Khulna District	24	24	100	7	29.16	8	33.33	9	37.5
05.	Other Districts	141	136	96.45	49	36.03	36	26.47	51	37.5
	TOTAL	497	488	89.19	214	43.85	133	27.26	141	28.89

Source: Board of Investment

1.52 It is an acknowledged point of view that the privatization performance in Bangladesh has not been impressive and that the evidence does not present a compelling case for privatization. This however is not, as the opponents to privatization suggest, an argument against privatization, it is rather evidence of poorly implemented past privatizations and confirmation of a very weak enabling environment. These points are dealt with in the following chapter.

1.53 Some of the criticisms of the private sector are not without foundation. Past privatizations have been subject to a number of weaknesses which the private sector has taken advantage of. These advantages have become the focus of substantial criticism. A brief list includes; (a) credit granted to the private sector for purchase of enterprises which was never repaid; (b) allegations of collusion and corruption in the tendering processes; (c) purchase of SOEs and subsequent liquidation; (d) the lack of evident post privatization profitability and; (e) the failure to pay out employee entitlements on closure. These last two points have been particular concerns of labor. However critics of privatization would do better to look at how privatization can help develop the private sector. It is important that the private sector is made subject to stronger disciplines.

Conclusion

1.54 Although GOB has announced a program of privatization, it has yet to do so in a convincing manner. In the past the rationale for privatization has been largely fiscal. Development and efficiency rationales have been given little public weight. As a consequence of the Bangladesh evidence being far from compelling, sections of opinion have remained far from convinced of these benefits. As Chapter 2,4 and 5 illustrate this is more the result of the present weak enabling environment and poor implementation rather than any fundamental defect in privatization per se. As these later chapters show these problems can be resolved and privatization can provide the range of benefits other countries have enjoyed.

1.55 GOB needs to issue a Privatization Policy statement which clarifies its privatization objectives and expresses its clear commitment to the program. The policy statement should not only include the overriding economic benefits expected, but the specific targets should also be detailed. These targets should detail the numbers of SOEs to be privatized, the value of the program and the time frame. The announcements must be accompanied by a public education program on the benefits of privatization. Such a program could draw on analysis of past privatizations, review of international experiences and the development of a national vision for the future. One mechanism to achieve the necessary political consensus would be the establishment of a cabinet level commission to define the goals of privatization and the linkages with other aspects, e.g., GOB's economic program and have the issues publicly debated. The on-going jute restructuring project serves as an illustration of how a national consensus could evolve from a full debate of the underlying issues. This work has several important implications of how privatization is to be implemented, the sequencing proposed and the level of urgency applied. These matters are discussed in later chapters.

1.56 Privatization properly structured can yield substantial and enduring benefits including higher productivity and growth of output and employment. Privatization will also benefit consumers directly through better service. However, privatization is not a panacea. If not accompanied by other reform measures, its full benefits will not be realized.

Recommendations

1.57 (a) GOB needs to issue a Privatization Policy statement.

(b) A public relations program is required to build a broad-based support for the program.

(c) A three-pronged strategy should be adopted which includes accelerating the existing program, early privatization of selected larger SOEs in the utilities, transport and finance sectors, and greater private participation in infrastructure and enterprise reform for SOEs that remain under public ownership.

CHAPTER 2

ENABLING AND REGULATORY ENVIRONMENT

Introduction

2.1 The enabling and regulatory environment can either constrain or enhance the privatization process. This chapter identifies the specific constraints to the environment and outlines mechanisms to resolve them in terms of (a) investment, trade and foreign exchange regimes; (b) labor markets; (c) capital markets; (d) infrastructure; (e) the legal framework; (f) fiscal settings; (g) general business environment; and (h) the privatization climate. Aspects conducive to privatization are also identified.

2.2 Analysis of the overall enabling and regulatory environment is also required to identify whether accompanying policy changes are required so that government can achieve its non-fiscal goals in respect of privatization: (a) improved economic efficiencies; and (b) development of the private sector. Evidence from other countries with similar regulatory regimes to Bangladesh has shown that unless privatization is accompanied by substantial reform of the enabling and regulatory environment the objective of improved economic efficiency will not be obtained. Indeed this failure to coordinate privatization with other reforms has been one reason why many believe privatization in Bangladesh has failed so far. Privatization itself is inextricably linked to remedying deficiencies in the enabling environment, as for instance, in helping to improve infrastructure and expand local capital markets and in sending fundamentally important signals to the business community about the roles of government and the private sector. The regulatory environment in so far as it manages consumer, competitor and public protection issues, needs also to be taken into consideration. There may be deficiencies in this regime which require remedy.

2.3 Bangladesh as a country was only established in 1971 following the war of liberation from West Pakistan. Traditionally part of Bengal province, it relied on Calcutta for over a century to provide its governmental and commercial needs. These relationships were severed with the establishment of Pakistan when Karachi and Lahore assumed Calcutta's role. On separation from West Pakistan, Bangladesh was rendered destitute as a result of the war. From this virtual zero base Bangladesh now has the key elements of an effective business environment: stable democratically elected government, a working infrastructure; and an emerging commercial sector. As can be expected in these circumstances there is still substantial room for further development and improvement of this environment. The analysis that follows is critical of the Bangladesh environment as it benchmarks the enabling environment from an international perspective, as the bulk of privatization financing will need to come from international sources. These criticisms are not intended to belittle the substantial progress the country has made in the last two decades. If the evidence of past progress is extrapolated to the future, one can look forward with confidence to timely resolution of the enabling environment concerns identified below.

2.4 *General description of Enabling Environment*. The key aspects of the enabling environment are (a) the investment regulatory framework is burdensome; (b) the labor force is becoming less competitive with neighboring countries; (c) the capital markets are not efficient and are highly risk averse; (d) the general infrastructure in terms of energy, communications, transportation, water and waste disposal ranges from at best barely adequate to very poor; (e) the

legal environment is ineffective; (f) the fiscal regime is inequitable. In summary then the enabling environment could be best described as weak.

2.5 Nevertheless investment has taken place in Bangladesh and investors have made good returns. There are some positive features to the Bangladesh business environment (a) the population is substantial with a large supply of trainable manpower; (b) the population is fairly homogenous and governed democratically; (c) the country is well endowed with gas reserves; and (d) in certain industrial sector (garments) it is internationally competitive for preferential quota and labor reasons.

2.6 *Regulatory environment*. There are many components of the regulatory environment which require reform if the GOB is to fully achieve its privatization goals. These components include, inter alia (a) investment regulation; (b) foreign exchange management; (c) monetary and credit regulation, including interest rates; (d) commercial law in terms of debt enforcement, title and general operation of business; and (e) management of consumers, competition and safety issues. The overall impression this regulatory environment leaves is that it is ineffective in market terms and still not conducive to business, consumers and competition.

2.7 In both the regulatory and enabling environment there is no single constraint that can be identified that will prevent the overall privatization program taking place nor is there any combination of constraints that would prevent privatization, in general. As successful local and foreign entrepreneurs in Bangladesh have shown, businesses can be operated profitably with good returns. Therefore there is likely to be a price at which an enterprise can be sold which will provide such profits and returns. The problem with a weak enabling and unhelpful regulatory environment is that GOB's returns from privatization will tend to be poor; investors' risk analysis is such, that the returns they require from investment are very high and therefore the price they are prepared to pay is low. The risk levels may also be such that investors who operate internationally choose to invest elsewhere.

2.8 A prospective purchaser of a public enterprise would usually seek (a) a stable and effective policy and regulatory environment; (b) an open economy in trade and exchange terms; (c) internationally competitive inputs in terms of availability, quality and cost; (d) a safe and transparent working environment; and (e) a neutral, verging on helpful, fiscal regime. The GOB has adopted many of these criteria as goals and has embarked on a reform program. The New Industrial Policy (NIP) announced in August 1991 contains the following key elements; (a) trade and industrial policy reforms; (b) reform of the public sector, including privatization; (c) tax/fiscal reforms; and (d) financial sector reforms. Implementation which by and large has only just commenced would deal with a number of the constraints that exist in the enabling and regulatory environment. Good progress has been achieved in removing non-tariff restrictions on trade; rationalizing tariff rates; improving export incentives; opening new sectors to private investment; relaxing exchange controls; and preparing reforms of business laws.

2.9 *GOB's Leadership Role*. The GOB has an important leadership role to play in the privatization process. It must be seen to be consistent, fair and supportive. The GOB must take care in the signals it sends to the marketplace. Already an unfortunate but understandable history of canceled or deferred commercial agreements in the gas and telecommunications sector has strained Bangladesh's international credibility. In particular GOB must convince purchasers of SOEs that

conditions of sale will be upheld, especially as GOB has capacity to alter the post-sale value in the hands of buyers through altering tax structures and changing rules relating to access to foreign exchange. Equally important is the need to convince the investment community that the proposed reforms will be implemented and the trend of reform will continue. In this regard action is the best signal. A good index of the adequacy of the policy environment is the level of foreign direct investment in Bangladesh. Table 2.1 below shows that foreign investment has been a trickle in Bangladesh compared to the experience of other developing Asian countries and this speaks for itself about the perceived uncertainties of the policy environment.

Table 2.1: Foreign Direct Investment to Developing Asian Countries, 1986-1992
(in millions of US$)

Country	1986	1987	1988	1989	1990	1991	1992
Bangladesh	2.4	3.2	1.8	0.2	3.2	1.4	3.7
China	1425.0	1669.0	2344.0	2613.0	2657.0	3453.0	7156.0
Indonesia	258.0	385.0	576.0	682.0	1093.0	1482.0	1774.0
Malaysia	489.0	423.0	719.0	1668.0	2332.0	4073.0	4118.0
Pakistan	106.0	110.0	173.0	167.0	242.0	261.0	n.a.
Philippines	127.0	307.0	936.0	563.0	530.0	544.0	228.0
Singapore	1529.0	2630.0	3538.0	1891.0	3911.0	3235.0	4288.0
Sri Lanka	29.2	58.2	43.6	17.7	42.5	63.0	121.1
Thailand	261.0	182.0	1081.0	1726.0	2303.0	1847.0	1979.0

n.a. - not available.
Source: IMF, International Financial Statistics, December 1993.

Investment, Trade and Foreign Exchange Regime in Bangladesh

2.10 The institutional, regulatory and supervisory authorities for private industries are Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Export Processing Zones Authority (BEPZA) and Board of Investment (BOI). The respective areas of responsibilities are small and cottage industries having capital investment up to Tk 30 million, industries located in EPZs and all other industries in the private sector. The Board of Investment (BOI) is responsible for registration of all bank-financed as well as self-financed projects including foreign investment outside the authority of BSCIC and BEPZA. It acts as a one-stop service point in providing necessary facilities and services to industries. BSCIC is responsible for registration of all small and cottage industries and for developing industrial estates. BEPZA approve all projects to be located in EPZs.

2.11 Officially, private industrial investment is completely deregulated. In practice, however, BOI indirectly controls investment through its regulatory functions in registering large and medium-scale domestic enterprises and joint-ventures, making recommendations about each firm's raw material requirements for issuing a passbook for import purposes, remittances of royalties, technical assistance and consultancy fees, issuing employment contracts to foreign firms and specifying approved remittances of savings of foreign employees. These processes are unnecessarily

complex, time consuming and lacking in transparency. They suggest that BOI has not yet transformed its role from a regulatory to a promotional one and point to the need for further reform of BOI and other sponsoring agencies and for effective deregulation of industrial investment.

2.12 The GOB has been steadily liberalizing its trade regime thus removing anti-private sector bias. The reforms include (a) phased removal of direct control over the trade and quantitative restrictions; (b) reductions of tariffs; (c) ensuring trade neutral arrangements for exporters; and (d) streamlining the import and export procedures. In undertaking these reforms the GOB must take care to avoid the "Usmania Glass" problem. Here the tariffs for imported glass were lower than for the raw materials Usmania needed to make glass, effectively putting Usmania out of business.

2.13 Whilst there has been some recent relaxation of quantitative controls, investors continue to express concerns on the complicated procedures for getting access to imported inputs in the restricted import categories, misclassification of customs duties and problems of getting through customs clearances. The clearances apply to both importers and exporters and are particularly problematic for export firms which have to meet very tight and strict export delivery deadlines to remain competitive.

2.14 Bangladesh is a highly aid-dependent economy. Despite strong growth in export earnings and remittances from Bangladesh wage earners from abroad only 50-60% of the country's imports are financed from these sources. The remaining external deficits are made up through concessional external assistance, grants, loans and short-term borrowing from the IMF. The concern about the scarcity of foreign exchange had led to strict controls of foreign exchange. These controls are exercised by the Bangladesh Bank (a) to improve the current account position; (b) to maintain international competitiveness and; (c) maintain the stability of the value of taka.

2.15 In order to encourage foreign investors in recent times foreign exchange controls have been substantially relaxed. In line with the movements towards convertibility on current account since early 1993 in other South Asian countries, GOB has taken important steps towards removing exchange restrictions on current international transactions since mid 1993. Exporters are allowed to maintain foreign exchange within certain guidelines. Although restrictions on current account payments have been liberalized, prior approval from concerned GOB agencies is still required for certain types of expenses, e.g., technology payments and consultancy fees. Further relaxation of exchange controls on the capital account would help the investment climate.

Labor Markets

2.16 The Bangladesh labor market exhibits three important features: (a) it is dominated by a very large informal sector; (b) formal sector wage rates are becoming internationally uncompetitive compared with other low cost countries; and (c) the unionized part of the formal sector is highly militant.

2.17 In Bangladesh there is a great reserve of skilled, unskilled, and educated people. Thousands of young people seek employment every year and there is a good supply of low cost labor. Bangladeshi labor is generally recognized as hardworking and adaptable. In recent years

there is an increasing supply of professionals, technologists and other middle and low level skilled workers, although there are still constraints in terms of the availability of senior level management skills. Development of human resources is being given increasing importance by the Government in designing its public investment programs. The increasing number of graduates from universities in Bangladesh with business training is developing an educated entrepreneurial class which over time will help address the problem.

2.18 The formal sector of the Bangladesh labor force in FY90 amounted to 4.8 million workers (9.5%) of which about 30% (1.4 million) was in the public sector. Table 2.2 below describes the work force.

2.19 Formal sector wage rates have been appreciating in real terms over the last decade without any corresponding increase in productivity. Increasingly this is placing Bangladesh at a disadvantage when compared with other low-cost countries. These increases have been led by public sector wages. The public sector increases have been used by unions to extract comparable increases in the private sector. These increases have been one of many factors which underlie the poor financial performance of public enterprises. This upward trend must be arrested if Bangladesh is to retain its advantage of low-cost labor and the current centrally determined wage structure replaced by one which is segmented by sector and enterprise and links wages to productivity and profitability.

2.20 The labor unions which represent approximately 1.5 million members or 3% of the work force are influential because of their concentration in large urban based industries and the linkages they have to political parties. The unions have a history of militancy, with very visible strikes, demonstrations and other forms of unrest. The GOB in the past has responded to union demands in two main ways (a) it has allowed wage rate increases which enterprises could not afford; and (b) it has maintained employment levels in enterprises which are clearly overmanned. More recently, GOB has announced its intention to link wages with productivity and to this end a Tripartite Consultative Committee of employers, employees and line Ministries has been set up. It is expected that the Committee will link wages with productivity and decide on separate minimum wages for sectors instead of the current practice of determining a minimum wage for the entire economy. GOB has activated the Committee by incorporating representatives of various industries for establishing the wages for the workers of these industries. The industries covered are river transport, printing presses, garments, tannery, aluminum, soap and cosmetics, iron foundry and engineering works, oil mills, hosiery, cinema, and re-rolling industries.

2.21 The various labor unions have formed an umbrella organization of workers, employees and labor in an organization known as Sramik Karmachari Oikkya Parishad (SKOP) which is not recognized as a bargaining entity but wields considerable political muscle and has on occasions called for nation-wide work stoppages and hartals which bring virtual cessation of all normal production and commercial activities in the urban areas.

Table 2.2: Estimated Labor Force
(In Millions)

Category	FY84	FY85	FY86	FY90b/
Self Employed	10.8	11.4	11.6	14.6
Unpaid Family Workers	4.5	5.2	5.5	22.9
Employed	5.0	11.5	5.8	4.8
Day Laborers	7.6	..a/	7.4	7.6
Not Reported	0.1	0.9	0.2	0.3
Unemployed	0.5	0.5	0.4	0.5
Total	28.5	29.5	30.9	50.7

a/ Day laborers are included under the "employed" category.
b/ Officially, this is referred to as the 1989 LFS estimate.
Source: Ministry of Labor.

Table 2.3: Evolution of Public Sector Real Wages
(FY83 = 100)

	FY85	FY86	FY88	FY89	FY90	FY91	FY92	FY93
Civil Servants								
MNS 1	108	160	139	132	128	125	141	156
MNS 9	121	160	158	157	166	168	162	179
MNS 20	107	155	147	143	144	142	149	174
Public Blue Collar Workers of which:								
Jute and Cotton Textile Sub-Sectors								
Grade 1	100	128	124	121	125	127	132	-
Grade 8	103	129	126	125	131	134	137	-
Grade 16	105	130	127	126	132	136	137	-

a/ Assuming the PFP target inflation rate of 6% for FY93.
Source: Ministry of Finance.

2.22 There is no doubt substantial labor market reform would help the privatization process. There are several issues (a) the impact on redundancy payments; (b) the need to bring wages into line with productivity improvements; and (c) the impact labor unrest and militancy has on the general business environment.

2.23 At present redundancy payments average Tk 200,000 ($5,000) per worker in jute and Tk 300,000 ($8,000) per worker in the railways. Whilst the level of payment is not generous in international terms, the basis is. This represents the strength of the unions and the absence of any

social safety net in Bangladesh. Clearly the level of redundancy payments should not be too high as it could be a disincentive to privatization. In redundancies to date GOB has for the most part resorted to multilateral financial assistance to fund payments. If, say, 20% of the 453,000-odd workers in the entire SOE sector are considered redundant and separation payments averaging Tk 200,000 per worker are applied, total separation pay-off would amount to some Tk 18.1 billion (US$453 million). In cases where the new owner has the responsibility for resolving overmanning the redundancy cost will be taken into account in pricing the privatization transaction.

2.24 The lack of competitiveness in wages will obviously affect pricing but it will also affect the level of buyer interest. In a situation where the labor market was by world standards truly competitive, the situation can be envisaged where investors may be able to identify alternative uses, i.e., the investor can get hold of both a site and labor for some alternative or expanded manufacturing process.

2.25 A high level of labor unrest will dissuade investors. They will factor in not only operational downtime but disruption to key inputs such as energy, telecommunications and transportation, to any pricing or buying decision.

Sources of Capital

2.26 Capital sources in Bangladesh can be segmented into three broad categories (a) local formal debt and equity markets; (b) local informal debt and equity markets; and (c) international capital markets.

2.27 *Formal debt markets*. The formal debt market or the availability of credit has been identified as the most important constraint to the private sector.[1/] Financial institutions in Bangladesh used to operate under a regime of rigid government and central bank regulation and directives. These covered the interest rates on deposits, lending rates, direction of credit to public sector enterprises and priority sectors, flow of credit according to pre-set norms and ceilings, control on expansion of bank branches, bureaucratic control of the management and operations of banks and financial institutions. There was rampant misuse of political and bureaucratic influence in credit allocation and utilization by vested interest groups, and corrupt practices developed especially in GOB-owned banks and financial institutions. This in turn led to non-payment and forgiveness of credit and emergence of a default culture in the banking sector. The financial institutions thus became subject to great strain and pressure. All these combined to reduce the efficiency of financial intermediation and mis-utilization of scarce resources.

2.28 There have been some recent improvements. Until 1982, all the financial institutions in the country were government owned and controlled. Then a few banks were permitted in the private sector. At the same time a National Commission on Money, Banking and Credit was appointed by GOB to identify problems and suggest remedies in order to create an efficient banking system in Bangladesh. Following the publication of the study report the World Bank undertook an

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1/ *CC Survey 1991, WB Survey 1991, AA Survey 1989.*

in-depth study of the financial sector and suggested reforms to ensure safety, soundness and efficiency of the banking sector. Largely based on these suggestions Government has adopted a number of institutional and policy reform/liberalization measures since 1989-90. These refer to: relaxation of deposit and lending rates and making them relatively more flexible to meet market considerations with a view to improving allocation of resources, beginning of replacement of direct credit control with indirect monetary instruments to control inflation, strengthening of prudential guidelines for bank supervision by the central bank, establishment of appropriate accounting policies including loan classification and improvement of capital, strengthening the legal framework of debt recovery and regulations affecting financial institutions. The GOB have also adopted positive policies to encourage credit, by providing low cost funding to certain sectors and allowing for loan restructuring of certain existing problem loans.

2.29 These improvements have yet to have any major impact on the local capital market. Bureaucratic problems still render it very hard to obtain credit from the state owned banks. The privately held banks while not subject to the same delays are highly risk averse.

2.30 A collateral capital markets issue is the cost of capital. Notwithstanding some recent reductions, Bangladesh has high real interest rates which are due in part to the high yield on government bonds and problems of past bad lending. To maintain their legal requirements on capital adequacy not only are banks charging high rates but they are also insisting on a high level of security. The entrepreneur or directors are required to furnish personal guarantees in addition to the guarantee given by the borrower's company to secure a loan. This inhibits domestic borrowings and will almost certainly preclude borrowing by foreign investors joining in equity with local entrepreneurs. It is most unlikely that foreign investors will agree to provide such personal guarantees.

2.31 Another aspect is the inadequate banking and finance regulatory regime, particularly the enforcement aspect, which has given rise to recent problems, the closure of BCCI and of BCI and NCB (two non-banking institutions) are examples. These events unfortunately send the wrong signals, although recently GOB has taken measures to strengthen the supervision of banking and financial institutions by the Bangladesh Bank.

2.32 *Other Markets*. The situation in respect of the other key capital markets and specific reforms for their improvement are discussed in Chapter 5 below. Improvement in other capital markets, which also represent constraints to privatization, is largely dependent on the overall environment. For instance, foreign markets will be influenced by investment opportunities themselves and the general enabling environment. The local stock exchange which is small, can be built up through a sensible privatization sequencing. Local informal markets will be affected by the general law and order situation and by the fiscal environment.

2.33 The implications for privatization are that reform of capital markets are required to both assist in the financing of the acquisition and to meet the privatized entities ongoing working capital needs.

Infrastructure

2.34 Desirable characteristics of infrastructure include (a) stable, non-erratic provision of services of adequate quality; (b) stable prices with a gradual reduction in the real price through improved productivity; and (c) stable administrative procedures which are fair and clear so that customers can deal with the suppliers without much difficulty.[1/] In terms of these characteristics Bangladesh suffers from instability in service, price and supply.

2.35 Each public enterprise will have a unique mix of infrastructure requirements. For some enterprises existing infrastructure may be adequate, for others, not. There are several issues in terms of privatization: (a) will existing supplies of services continue after privatization?; (b) are new or expanded supplies of services available?; (c) are there opportunities to reduce infrastructure costs? So in each privatization, infrastructural issues will have a different impact.

2.36 In terms of infrastructure the major components are: (a) telecommunications; (b) electricity; (c) other energy; (d) transportation; and (e) water and pollution.

2.37 *Telecommunications*. Telecommunication services are provided more or less exclusively by BTTB. The performance of these services is wholly inadequate. Telephone penetration rates are currently less than 2 telephones per 1000 people (the comparable figure in Pakistan is now more than 5 times this level). Waiting lists for service are very long. Currently there are over 100,000 applications waiting for telephone connections even with a high deposit amount of Tk 20,000(US$500) per connection. Quality of service is extremely poor. Petty corruption appears to be widespread.[2/]

2.38 The surveys of the business community show they do not see any major problems with the present telecommunication services. This is quite common with telecommunications, as the enterprise is often unaware of the potential telecommunications has to improve its business. The telecommunications industry tends to be supplier-led i.e., only when a service becomes available does demand develop. By any international comparison, services in Bangladesh are poor. The business community would clearly benefit from an improvement in services. However, it is unlikely present service levels will actually discourage investment.

2.39 *Electricity*. Although Bangladesh is fortunate in having relatively low cost gas for power generation, electricity service can be characterized by relatively high cost, US$0.06/kwh, and it faces the risk of technical failure due to back-logged repair and maintenance of the system. Out of a total of 2300 mw installed capacity nearly 700 mw is out of service and requires rehabilitation; daily load shedding has recently averaged about 300 mw and is expected to increase as the system is operating without any reserve margin for scheduled overhaul and maintenance. Due to overloading and lack of maintenance, operation of most of the grid substations has also reached a crisis stage as manifested by frequent trippings and long outages. Increasing power supply shortage

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1/ *Industrial Development in Bangladesh Vol III 10313-BD.*

2/ *The Peoples Republic of Bangladesh: Telecommunications Sector Reform Study Phase II Report, February 1993.*

is a major constraint to economic growth[1] and significant investments in new plant as well as rehabilitation of existing plant is required.

2.40 The business community rate the supply of electricity as the fourth most important problem, and in some sectors, as the most important (non-metallic industrial products).[2] A survey conducted by the Bangladesh Metropolitan Chamber of Commerce has revealed that in the six-month period ending June 30, 1993, losses due to power outages were as high as 29% of the value of production of some firms, the highest losses being recorded in jute mills. Power outages have (a) compelled firms to use standby generators; (b) damaged equipment; and (c) caused production wastages. Getting connected to the power supply is also a major problem for newly established firms. These issues will certainly be factored into any investor plan.

2.41 *Other energy*. Apart from electricity, the other main sources of energy are natural gas and fuel oil. Natural gas accounts for about 65% of the country's commercial energy supplies. Bangladesh has large reserves of natural gas but as yet has to fully develop an adequate infrastructure network. There are two key pipelines required; North/South Pipeline System (NSPS) and a Ashunganj/Bakhrabad pipeline ("A-B"). These proposed pipelines will reduce stress on existing fields and enable current industry and electric power needs to be met. Current reserves are estimated to be sufficient to service all current and new consumers for at least 40 years.[3] At present, the pricing of gas appears too low at US$1.20 mcf. This low price distorts local decision-making and does little to manage demand efficiently. Gas is also heavily taxed, and only 38% of the price is retained by Petrobangla, which severely affects the financial viability of the Petrobangla group.

2.42 Fuel oil is imported and in all cases the domestic retail price exceeds the estimated economic price.[4] There are some anomalies in pricing which are being resolved gradually. Generally there is no problem in availability or quality.

2.43 *Transportation*. The transport sector can be segmented into road transport, inland waterways, railways, seaports, aviation, international shipping services and urban transport. Of these sectors international shipping and aviation can respond easily to market demand and do not represent a constraint. Road, railways and inland water transport are significant in the transport of both passengers and cargo. The "transport intensity" of the Bangladesh economy, i.e., transport inputs in relation to national income, is much lower than in neighboring countries. Nevertheless, urban transport is not a direct constraint to privatization.

2.44 The road network of around 6600 km of paved roads has been effective. The improvements in the road network have led to the development of a reasonably good private trucking industry, which has been developing at the expense of the railways. The business community do not

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1/ *Bangladesh Power Rehabilitation Project (8BANPA192) Final Executive Project Summary, November 1992.*

2/ *CC Survey (10313-BD).*

3/ *IDA mission, Bangladesh - Gas Infrastructure Development Project, December 1992.*

4/ *Prospects for private participation in the energy sector, March 1990.*

see the road network as a constraint, notwithstanding the relatively low level of development and maintenance.

2.45 The inland waterway network comprises over 8300 km of navigable waterways in the monsoon and 5200 km during the dry season. There is an increasing problem of siltation as a result of upstream river control. This reduces the navigable waters in the dry season. Many of the inland ports are impaired by siltation and inadequate facilities.

2.46 The railways operate a network of 2800 km route. The rail network suffers from a mix of gauges, Jamuna Ferry crossings, system closures due to floods and poor labor relations. Traffic on the railways declined substantially during the 1980s, from 90 million passengers and around 3.0 million tons of freight in 1981 to under 70 million passengers and about 2.4 million tons of freight[1/] at the close of the decade.

2.47 Seaports serving Bangladesh are Chittagong in the east and Mongla in the west. Improvements to Mongla port would allow it to increase its present share of trade from 20% to 50%, which would help reduce transport costs in north west Bangladesh. Businessmen report the ports are generally satisfactory. However, corruption was claimed to be widespread and costs of service were believed to be relatively high. Container handling costs in Chittagong port, for instance, are almost three times as high as in Colombo or Singapore.

2.48 *Water and Pollution*. For industry the water supply is not a problem. However, environmental issues in respect of waste disposal are likely to arise in the future, though to date environmental considerations have not been a concern. It is to be expected that foreign investors will be very cautious about industries where pollution is not managed properly.

2.49 In sum, in so far as the privatization program is concerned certain aspects of the infrastructure will concern investors. In particular the unreliability of electricity supply will be an important factor in evaluating certain investments. In heavy polluting industries the lack of environmental management will be a significant negative factor. Whilst there is room for improvement the remainder of the infrastructure is not seen as a major constraint.

Legal Environment

2.50 In a privatization program a legal environment containing a clear set of laws combined with a speedy and transparent judicial process is desirable. In particular, the following would normally be expected (a) effective contractual laws; (b) an up-to-date company and securities code; (c) efficient property transfer procedures (an estimated 75% of all litigation in Bangladesh relates to land); (d) a sound commercial regulatory regime; and (e) reliable financial information. In Bangladesh a base of such laws exists. However, they tend to suffer from the following defects (a) they are very old and as a result can in some cases be quite deficient; (b) the administrative procedures surrounding them are cumbersome either as a result of "overcrowding" or inherent

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1/ *Bangladesh Transport Sector Review 9414-BD June 1991.*

inefficiencies in the procedures themselves; and (c) laws that in themselves are quite adequate are not implemented. The Foreign Investment Advisory Services (FIAS) recently noted "outdated laws and a highly inefficient judicial system pose severe problems for efficient private sector development".[1] The FIAS further noted that this deficient legal framework "is driving capital out of the country and is operating as an effective barrier to investment."

2.51 The FIAS made wide-sweeping recommendations in respect of Bangladesh's legal environment. These recommendations involved (a) revising the current legal framework; (b) reorganizing judicial administration and enforcement of law; and (c) building legal capacity. Commercial and other laws are currently under review by a legal reform committee of GOB.

2.52 In terms of privatization there are several areas which require immediate attention (a) debt enforcement procedures, to ensure new owners are subject to full capital market disciplines, i.e., they must be exposed to the consequences of failure, for otherwise one of the key incentives to achieve economic efficiency will not be in place; (b) property transfer procedures. The regulations relating to land registrations and records and land transfer are cumbersome. The completion of transactions takes a long time. Hence banks are not allowed to use real estate as eligible collateral in determining provisioning requirements against bad debts. On the other hand, real estate is always advanced as collateral against grant of the loan. (c) labor laws, to remove existing inconsistencies and provide an integrated framework for establishing the rights and duties of both employers and employees and also provide speedy and effective access to justice for aggrieved persons, and (d) company laws to both allow companies to freely appoint and remove directors and provide for minority protection.

Fiscal Environment

2.53 There are four main problems with Bangladesh's fiscal environment (a) although depreciation allowances are generous, corporate tax rates are high; (b) other taxes such as stamp duties impede capital market transactions; (c) widespread tax evasion occurs in certain sectors; and (d) tax incentives are overly generous. This environment "gives a set of signals that distort investment decisions, and discourages certain classes of investors, including foreign investors."[2]

2.54 Whilst corporate tax rates are high (40%-50%) the incidence of payment is low, particularly with local enterprises. An earlier study has shown multinationals were paying taxes at 4.8% of the value of sales as compared with less than one percent paid by local firms. Multinationals which are subject to international financial disciplines and audit can be expected to be reasonably honest in their tax payments. Other anecdotal evidence suggests that local companies were declaring only 10% to 20% of their real profits to the tax authorities. This differential is one of the major complaints of foreign investors undertaking business in Bangladesh. The problem also applies to listed companies which need to maximize disclosed profits.

1/ *Policy Regulatory and Incentive Regimes Affecting Private Foreign and Domestic Investment in Bangladesh - FIAS November 1992.*

2/ *ibid.*

2.55 The widespread evasion significantly distorts Bangladesh's capital markets by disadvantaging listed companies and foreign investors, two very important potential sources of capital for the privatization program. The fiscal environment requires reform. Tax rates need to be lowered and unified, a significant reduction in the availability of tax incentives and improvement of tax administration need to take place. Only then will the foreign and listed capital markets be able to play a full role in the privatization program.

2.56 Not only are there problems with company tax but property transfer also attract significant stamp duties and registration fees. These fees can amount to as much as 25% of the transaction value. This further distorts capital markets as transactions either do not take place or do in some distorted manner. Reform of these charges is also required.

2.57 *Other Impediments*. In virtually every aspect of the enabling environment rent-seeking is cited as a significant factor in explaining inefficiencies and failures. The infrastructure is no exception; there have been system losses in electricity, short cuts in telephone waiting lists and pilferage on the rail network. The level of corruption represents a further major disincentive to foreign investors. For local investors it tends to get factored into their decision making. Bangladesh also seems to suffer from very cumbersome administrative procedures in most areas of the government. The business community have quoted many examples of inordinate delays in obtaining approvals.

General Business Environment

2.58 The discussion so far has been fairly negative. In such an environment why then do people invest? As one overseas broker put it; the opportunity to make substantial real returns.[1/] Quite obviously some people in Bangladesh have learnt to manage their businesses through all these constraints. They tend to be local entrepreneurs, who are well connected and educated. Despite obstacles these people, at the right price, will participate in the privatization program. They have done so before, and they will do so again. The greater concern then is how one attracts foreign investors who will be necessary for certain transactions for technical and funding reasons. The present enabling environment is not good, when one considers most foreign investors have an ample portfolio of investment prospects. It will mean they go elsewhere.

2.59 One problem Bangladesh faces is the mutual mistrust and lack of rapport between government and the business community. This must be resolved if the private sector and government are to work together. A public-private sector liaison council should be formed as an informal but continuing forum for discussion of economic development and business issues, including privatization. Similar councils have been effective in other countries. Business leaders meet with government economic officials on a monthly or bi-monthly basis. Such a forum can increase the two-way flow of information and promote mutual understanding.

1/ *Bangladesh Market Focus, October 1992, Smith New Court Far East.*

2.60 The GOB has made some moves in an attempt to help foreign investment, for example, relaxing currency rules, streamlining the Board of Investment and granting taxation incentives on new investments. If investment is to be attracted the GOB will have to do a lot more in addressing the constraints identified.

Privatization Climate

2.61 Some observations on the climate for privatization can be developed for each of the concerned groups: (a) politicians; (b) bureaucrats; (c) intellectual community; (d) business community; (e) organized labor. The observations are based on mission interviews, and published public comment. The politicians tend to be supportive of the need for privatization, but they could not be described as enthusiastic. Within their ranks there is no strong advocate, a "Mr. or Mrs. Privatization". Privatization is something they have come to reluctantly. The bureaucrats on balance are neutral to privatization, they do however harbor a suspicion of the private sector, and would not be happy with a privatization program that leads to increasing concentrations of wealth. A very senior official noted that privatization as practiced in Bangladesh must be redefined. The intellectual community who are important leaders of public opinion have a wide range of views. Skepticism about privatization is based in part on a perception that past privatizations have not been effective and have led to increasing concentrations of wealth. The business community are almost totally pro-privatization. They point to the almost universal poor performance of SOEs and believe government should not be involved in business. Organized labor representatives often equate privatization with job loss at their cost.

2.62 For privatization to succeed in Bangladesh the process must take this climate into account and the conflicting views that arise in re-drawing the public and private sector boundaries. The issue GOB face is how it deals with the tensions between the economics and politics of privatization and how it balances the need to access foreign investors' and local entrepreneurs' capital for the privatization process, and the legitimate concerns of sections of the community. The privatization process must be shown to be in the public interest and GOB should build as broad a consensus as possible. This may call for some innovative approaches to spread the benefits of ownership. Transparency is essential, as is an effective and extensive public relations program. The on-going jute restructuring program serves as an example of how a public discussion of the issues can help win broad-based support.

Regulatory Issues

2.63 While on the one hand the business environment is characterized by intrusive regulation of investments, on the other there is little effective regulation protecting consumer interests relating to product quality, safety health and the like. The monopolistic behavior of the large state-owned enterprises have been sought to be managed by direct control over their production and prices. Prices of SOE products such as sugar, newsprint, fertilizer and products of the steel mills are controlled by GOB. The tariff rates for the utilities such as water, gas, electricity and telecommunication services are also determined by approval of GOB. Often, however consumers

face poor quality of service and periodic price increases to cover inefficiencies in the SOEs concerned.

2.64 In the private sector at present there is no machinery to ensure the regulation of monopoly power. There is legislation, namely, Monopoly and Restrictive Trade Policies (Control and Prevention) Ordinance of 1970 on the statute book. But the law has not been made effective. The Ministry of Commerce has begun to work on fair trade legislation along with setting up an institutional structure to attain the following objectives:

(a) To ensure that monopolistic and restrictive business practices do not impede or negate the realization of benefits that should arise from liberalization of trade and investment controls.

(b) To encourage and protect competition and to control concentration of capital and economic power.

(c) To eliminate the disadvantage to trade and development which may arise from unfair trade practices.

2.65 In the non-utility sector the thrust of consumer protection should come from competitive forces--from competing domestic products and services as well as imports--which will keep prices competitive and raise quality rather than strengthening of the Monopolies and Restrictive Trade Policies Ordinance. Such regulations more often than not tend to have adverse unintended effects of stifling growth and competition and introduce administrative discretion into the functioning of the market. Similar regulations are being substantially curtailed in other countries that are liberalizing their economics and GOB should use extreme caution in reviving a regulatory regime which is being discarded elsewhere. In the case of utilities where monopoly situation could arise, consideration should be given to special sector procedures. In each utility the key regulatory issues should be identified and dealt with. In the telecommunications sector, the current work has identified an appropriate regulatory regime. As an initial step, GOB could separate the regulatory functions from operations and create a semi-autonomous regulatory group within the Ministry of Posts and Telecommunications to exercise the regulatory functions. In the gas sector, the Petroleum Concessions Division, now part of Petrobangla, could conceivably be hived off to constitute the nucleus of a regulatory body. In some other sectors, particularly in transport, regulatory bodies already exist, such as Inland Water Transport Authority, Road Transport Authority and Civil Aviation Authority. With the utilities, GOB will be faced with the choice of establishing a unique regime for each utility or developing an overall framework which can apply to all utilities, or a combination of both. There are four main regulatory options that have been applied in the regulation of utilities; (a) the North American model which relies on a legal setting to determine the rules of the game and the appropriate tariff; (b) the British model, whereby a separate regulatory body makes the key determinations; (c) a license model, where the utility is granted a license to operate (the license defines the key regulatory issues); and (d) a "light handed" approach which relies on a reasoned interpretation of broad principles. The GOB will need to weigh the costs and benefits of each model, together with the practicalities of implementation in selecting a regime. Given the deficiencies in Bangladesh's legal system, options (a) and (d) may be inappropriate. Option (b) is reliant on the availability of competent regulatory expertise and may also be unsuitable. The

licensing option in conjunction with a regulatory body is the preferred regulatory model for utilities in Bangladesh.

2.66 Regulation is essential for the successful management of a market-based economy where actual and potential monopoly positions exist. One of the misperceptions of privatization is that the process of selling State assets absolves the public sector from this challenge of economic management. Regulation of monopoly power and the creation of an appropriate enabling environment in which forces of competition will flourish are essential adjuncts to privatization. This is particularly important in sectors where competition is so weak that without proper regulation the expected benefits of privatization can be lost through the creation of monopoly profits. Despite this, in many developing countries, post-privatization regulation of utilities and other monopolies has remained a distinctly low profile activity. One of the public concerns in Bangladesh is that the withdrawal of the State from a number of economic activities could lead to adverse impact on the national economy in later years and the emergence of monopolies and cartels which would hurt the interests of the common man. Public doubts on this score should be dispelled through the development of effective regulation of potential monopoly power and elimination of regulations -- import controls, high tariffs and licensing -- which give rise to monopoly situations.

2.67 Whilst the regulatory environment must be improved, it is not necessarily a precursor to privatization. Privatization can proceed in parallel with the development of the regulatory environment. What is important is that the investor knows in advance that a regulatory environment will be developed, the likely style of regulation and the key elements. In the large utilities, i.e., electricity, telecommunications and gas distribution/transmission, the broad outlines of the regulatory regimes should be designed before privatization can proceed and privatized enterprises should face credible competitive pressures to assure consumer protection and attention to safety/environmental standards.

Conclusion

2.68 Improvements in the enabling environment should proceed either prior to or in parallel with privatization. If GOB pursues privatization without undertaking any changes to the enabling environment, it would run the following risks: (a) the potential pool of buyers will remain fairly limited; (b) attracting foreign capital will remain very difficult; (c) privatization will tend to attract "financial buyers" as opposed to "business buyers"; (d) the price paid is likely to be low and conditional; and (e) opposition to privatization will remain strong. Moreover, Government is unlikely to achieve the fiscal, efficiency and development objectives it seeks. In the non-utility sector consumer protection should essentially come from forces of competition. In the utilities, where monopoly situations could arise, the regulatory framework should be devised prior to privatization.

2.69 The review above of the enabling and regulatory environment has identified in virtually every area the substantial improvements that would enhance the investment climate. There are however a short list of critical improvements which would yield early returns to the GOB. These are:

- Elimination of GOB interventions in investment. Residual regulatory powers in respect of public interest issues, e.g., environment and public health, should be left with the appropriate government department.

- Further liberalization of the foreign exchange regime.

- Reform of the legal and tax system. Both systems must be transparent, fair and beyond reproach. This should include implementation.

- Penalties for business failure must be strengthened, e.g., insolvency and bankruptcy laws should be reformed.

- A public-private sector liaison council should be formed as an informal but continuing forum for discussion of development and business issues, including privatization.

2.70 In the longer term, GOB should focus on:

- Streamlining of the administrative bureaucracy. GOB could consider the African contracting out model where in certain sectors of its administration it contracts out to the private sector administrative responsibilities (refer Chapter 6). Anti-business attitudes within government should also be redressed.

- Improvement of infrastructure by stepping up the implementation of the public investment program and introducing arrangements to involve the private sector in infrastructure development.

2.71 In addition to these improvements, regulatory changes are required, if privatization is to succeed in the long term. These regulatory changes involve on a case-by-case basis establishment of suitable protection from monopoly power. This applies particularly in the case of utilities. A broad outline of an overall regulatory framework for Bangladesh should be designed and signalled to the business community. In many cases the threat of regulation can be even more powerful than regulation itself. However, in Bangladesh the outline should be followed up with a regulatory regime as soon as possible. GOB will need to display strong, consistent and transparent management throughout the privatization program.

2.72 Overriding all these comments is GOB's role. Its recent approaches to market-based adjustment reforms are commendable and a good first step. It will take some time before the message is absorbed by the business community that GOB is supportive of business. To accelerate this GOB should ensure these issues are included in their active public relations campaign. However, to be credible such a campaign must be supported by implementation.

Recommendations

2.73 (a) GOB should continue and accelerate its planned reforms of the enabling environment, and ensure the reforms are effectively implemented.

(b) GOB should outline its approach to regulation of monopolies.

CHAPTER 3

LABOR ISSUES IN PRIVATIZATION

Introduction

3.1 This chapter examines the social concerns arising from labor restructuring during the privatization process. The need for labor restructuring arises primarily because many public enterprises are overstaffed, a result of enterprises being required by government policy to provide employment opportunities. Even in cases where SOE production and services have declined or excess capacities have developed, they have been unable to shed excess employment, e.g., Bangladesh Agricultural Development Corporation (BADC), Bangladesh Railways (BR) and BJMC. Overtime is another related problem which has become prevalent in most SOEs, accounting for about 50-80% of the total wage bill. The combined effect of overstaffing and excessive overtime benefits have given rise to inflated wage bills which in some cases exceed the value added of several SOEs. For instance, in BJMC wages and salaries represent 167% of value added.[1/]

3.2 One of the more sensitive issues in privatization is how to carry out labor rationalization with minimum social costs. The issue is sensitive because of the weak track record of a large body of the privatized units on questions relating to redundancy payments and poor labor-management relations. Labor opposition is often regarded within Bangladesh as one of the intractable problems of privatization. However, recent evidence suggests that labor opposition to privatization is not insurmountable provided interests of the labor are adequately protected. Experience of other countries which have undertaken large-scale privatization programs also provide ample evidence in this regard.

3.3 Before the applicability of various reactive and proactive options available for overcoming the problem of labor opposition to privatization in the context of Bangladesh is examined, a brief review of the characteristics of the organized labor and trade union movement is in order. Such a review is needed to evaluate the nature of labor opposition and to assess the level of acceptability of various options for overcoming opposition to labor-restructuring prior to privatization.

Characteristics of the Organized Labor and Trade Union Movement

3.4 Given the lack of survey-based studies focussing on the characteristics of the organized labor and trade union movement in Bangladesh, the discussion presented in this section will mainly draw upon information generated through open-ended intensive interviews held with central-level labor leaders, government functionaries of the Ministry of Labor, Directorate of Labor, and various sector corporations. Several important trends emerge from this exercise.

3.5 One of the defining characteristics of the formal sector industrial labor is that most of the workers come from marginal farming families owning small amount of land, usually up to

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1/ *Selected issues in external competitiveness and economic efficiency, World Bank, March 1992.*

1.50 acres. In opting for industrial employment, the principal consideration has been to supplement the inadequate farm income rather than to permanently migrate and settle as an industrial worker with other family members in the urban area. Rural connections of the industrial workers are deep-rooted and have only marginally declined over time. Only among 10-15 percent of workers does one find a near-total absence of rural connections. As for the rest, such connections are found to be sustained on a fairly regular basis. This involves routine visits to village residences where the other family members continue to stay, participation in agricultural activities during planting as well as harvesting seasons, and regular outflow and inflow of remittances in cash and kind. In Latif Bawani jute mill, for instance, seasonal absenteeism during the harvesting of *aman* and *boro* rice crops alone averages about one month and such absenteeism characterizes 30-40 per cent of the permanent workers. The persistence of peasant mentality amongst organized labor is also reflected in their attitudinal bias towards investing in the purchase of agricultural land. As a number of trade union leaders have pointed out, one of the key aspirations driving an average industrial worker in both the public and organized private sectors is to accumulate savings for purchase of an 'additional *bigha* of agricultural land'.

3.6 Another aspect is that only 10 per cent or so of the married workers live with their spouses, because of inadequate housing. None of the married workers in Latif Bawani jute mill live with their spouses in their regular place of residence in and around the industrial area. Limited housing space available for the state sector workers does not meet the housing demands of 40 percent of the unmarried workers, not to mention the housing needs of the married workers. As a result, most of the workers live in private mess-type arrangement in the vicinity of the industrial area on a shared basis (usually 20-50 workers per mess at a rate of Tk 50-100 per tenant per month). Inability to maintain routine familial existence in the urban context also leads to the need for maintenance of rural connections.

3.7 The metamorphosis of once-peasant into industrial worker is thus far from being complete. These rural connections of industrial workers have considerable significance for the social impact of labor redundancies that could accompany privatization. The rural connections mean that in its social impact redundancies could cut both ways; it could ease the trauma of job loss in that redundant workers could quickly be absorbed in the informal sector. On the other hand, where the wider family is dependent on the wages of the industrial worker, job loss could have wider social implications

3.8 Available data suggest that the degree of unionization amongst the workers is quite significant, though opinions differ regarding the effective number of workers who regularly participate in union activities. A higher bound value for the degree of unionization is given by the estimates provided by the Directorate of Labor (DOL). According to the DOL survey, the total number of manufacturing and non-manufacturing units stood at 13,807 in 1991, employing about 5.6 million workers. The total number of registered trade unions estimated at the beginning of 1991 was 3789 with an aggregate membership of about 1.6 million workers. This suggests that the degree of unionization of the workers would be about 29 percent. However, discussions with the central-level labor leaders of the *Sramic Karmachari Oikkya Parishad (SKOP)* (literally, council for workers-employees unity) suggest that the extent of unionization is around 20%.

3.9 While estimates of the degree of unionization may vary, there is little controversy as to the fact that the average figure conceals significant variation across the sectors. In general, there is a high degree of unionization of workers employed in the public sector including public manufacturing units, e.g., utilities, railway and nationalized banks. Within the public manufacturing sector, in jute and textile mills the degree of unionization is particularly high (over 90 per cent). Jute and textile workers together account for about a third of total workers employed in the public non-financial sector and are widely regarded as representing the most powerful and articulate pressure group within industrial labor (Annex 9). Clearly labor-related reform initiatives in these two sectors could have significant demonstration effects for the remaining public enterprises.

3.10 A high degree of unionization in the public sector carries implications for the organized private sector as well as sectoral unions which are often formed, encompassing workers in public as well as private enterprises. In addition, sectoral industrial unions are joined in federations which transcend and extend across sectors. This particular way of forming sectoral and inter-sectoral unions can, in part, be attributed to the tradition of political parties floating their respective labor front organizations. The parties mostly operate in the form of inter-sectoral union federations. One immediate outcome is that labor-related decisions taken in public enterprises are quickly transmitted to the organized private sector.

3.11 Another noteworthy characteristic is the politicization of the trade union movement as major political parties have formed their respective national-level labor front organizations. Also, most of the trade union leaders at central as well as district levels are important political party functionaries. Some of the central-level labor leaders are also quite active at the plant level as elected leaders of the collective bargaining authority (CBA). Although the share of organized workers in the total labor force is low, organized workers, particularly in the jute and textile sectors, are concentrated in large industries, and are spatially concentrated in what is known as the 'industrial area', that has developed in and around Dhaka city. Consequently labor is able to exert a great deal of political pressure through very highly visible strikes, demonstrations and other forms of labor unrest.

3.12 The impact of politics on the trade union movement is vividly revealed in Table 3.1. The table shows that out of 796 industrial dispute/unrest events recorded by DOL during 1977-91, 350 cases (44 per cent) were directly caused by political factors of extra-industrial origins. The importance of the political movement was at its lowest during 1980-82, but gained increasing ascendancy in the latter half of the eighties. The militancy of the trade unions as well as oft-reported incidence of industrial violence is not necessarily an expression of the strength of the unionized labor; rather, it reflects a weak and underdeveloped state of industrial labor relations. As can be seen from Table 3.2 conventional methods of settling industrial disputes have occupied a marginal place in the conflict-resolution process. Arbitration by independent tribunals established by law has virtually ceased to function. Direct negotiation accounted for only about one-fifth of the recorded disputes during 1977-91. Mediation by the government has also been restricted to another one-fifth of the cases. By contrast, workers have returned to work unconditionally in about 44 per cent of cases. The absence of an effective mechanism for dispute resolution through negotiation or independent arbitration to some extent explains the violence to which workers often resort. Both workers and entrepreneurs tend to by-pass the codes of industrial relations. Existing rules/procedures of strikes and lockouts, as stipulated under the labor laws, are rarely observed by the two parties.

6.31 Within the authority of the Roads and Highways Department and BIWTC are some 13,600 km of roads, 3444 bridges, and 80 ferry crossings for Roads and Highways, plus a number of larger ferry crossings and dock facilities of BIWTC. Bank consultants working in this sector observe large fleets of inoperative maintenance and construction vehicles deadlined for lack of spare parts, improper use and wrong deployment, while the maintenance necessary to keep up performance of the system is foregone. BIWTC has a large fleet comprised of hundreds of vessels having only minuscule utilization rates, yet staffed with full crews and consuming fuel and supplies without performing crucial services such as dredging or dock upkeep. In the Road and Highway sector, a 1987 Kampsax Road User Charges Study indicated prospective acceptability by users of toll road and bridge charges. The Bank's Road and Highway Department Road Master Plan has components being taken up for implementation by both IDA and ADB that could be packaged as BOO/BOT projects suitable for taking up by private investors.

6.32 Assumption by the private sector of operation and maintenance of two large and inefficient fleets of vehicles, road construction equipment, and marine transport and dredging vessels, under leasing out contracts, would be one possibility. With control and deployment of these vehicles and marine fleet in private hands, the totally useless ones kept in commission could be promptly scrapped, with the remainder in a useable category being rehabilitated and leased to private contractors (or to government agencies) on a job order, payment for task performed basis. One illustration of how this approach could have a dramatic and visible benefit would be completion and improvement of the many kilometers of rural feeder roads and farm-to-market routes constructed in past years under Food for Work programs. It is understood that usefulness of this extensive network would be markedly enhanced by interconnections and bottleneck reductions through construction of culverts and small bridges. This kind of labor intensive, medium to low level technology could well be undertaken by small and medium-sized Bangladeshi contractors. In addition to the Road and Highway and the BIWTC, it would be most useful for the Ministry of Works, and the Ministry of Shipping to be informed about and involved in and supportive of these contracting out and BOO/BOT initiatives, particularly in cases where there might be cross ministry jurisdiction issues.

6.33 In improving port services, private sector participation in handling containers at Chittagong port is another possibility. This could be in the form of a joint venture with the Chittagong Port Authority providing the existing facilities as equity, and with the private investor bringing in handling equipment, repair facilities and rolling stock. Such joint ventures have been successful elsewhere as for example in Port Pusan in Korea, Manila in Philippines and Port of Shanghai in China.

6.34 A welcome development in air transport is the dent made in the monopoly on civil aviation of Bangladesh Biman Airlines by a recent GOB decision to permit the operation of private sector airlines. Initially, short take-off and landing (STOL) service is to be allowed in areas within Bangladesh where Bangladesh Biman carriers do not operate. Though restricted in its scope, the GOB decision to make domestic aviation more open is a salutary move and could herald a progressively larger role for private airlines in Bangladesh.

6.35 *Telecommunications*. GOB is finalizing its sector policy reform including an implementation plan to promote competition and private sector participation under an appropriate

regulatory regime. GOB has taken initiatives to promote private sector participation, such as the existing BRTA's rural franchise and two additional rural franchises currently being evaluated.

6.36 The submission under international tendering for provision of 130,000 lines by Telephone Shilpa Sangstha Tongi in June 1992, is an example of an effort by BTTB to invite the private sector to participate without a clear understanding of the needs and requirements of private investors. Ministry of Telecommunications officials followed the model in Pakistan in excluding government guarantees that were demanded by the prospective investors. As a consequence, the negotiations did not move forward. The Pakistani model was similarly unproductive in Pakistan, and was accordingly abandoned by the Pakistani telecommunications authorities.

6.37 In recent times there have been two unfortunate but understandable incidents which have strained GOB's credibility with the international investment community. In one case, GOB and Cable and Wireless mutually agreed to cancel a contract to establish an international satellite hook-up as the contractual procedures were not felt to be transparent and equitable to GOB. In another case, due to internal friction between a Bangladeshi company and its international partner, start up of a cellular service was delayed by four years. However, this has now been satisfactorily resolved.

6.38 In August 1992, at the request of Government, IDA engaged an international consulting firm to carry out a comprehensive telecommunications reform study in three phases to assist GOB to develop sector policy and a regulatory framework to promote major sustained improvements in the telecommunications sector's performance. At the conclusion of each phase of the study workshops attended by key stakeholders were held to deliberate the findings and build a consensus for sector reform.

6.39 Such a consensus has now been reached on the broad policy agenda for the telecommunications sector, which envisages the launching of a new, majority privately owned operator. This private company would compete directly with BTTB in the provision of basic service. Such a strategy recognizes that BTTB is an unlikely vehicle for channelling any new investment into the telecommunications sector. Following this, GOB needs to change its regulatory regime to permit "level playing field" competition between BTTB and the planned new private sector-controlled company. BTTB would also need to be reformed to enable it to compete in the new environment. Telecommunications would then indeed become an attractive candidate for private investment in infrastructure and the new company would have the chance to demonstrate productive efficiencies, improved cost/benefit ratios and a new corporate operating style with improvement in services to subscribers, enhancing density of service in the country (now one of the lowest in the world) as well as generating attractive profits for the operator.

6.40 *Power Sector*. During recent months, an international energy contractor submitted a detailed unsolicited proposal to build, own and operate a 2 x 300 MW combined cycle power plant, that would utilize indigenous natural gas as fuel. In order to proceed with consideration of this proposal, the Power Development Board would need to assure itself that the submission was technically and financially sound, that the proposer had sufficient experience in operating similar plants, and had adequate financial stamina to finance, complete construction, and operate the plant. The minimum requirements to operationalize this project would involve negotiation of at least three major contracts: (a) a power purchase agreement with the power board, incorporating some type of

Table 3.1 Causes of Industrial Disputes/Unrest

Year	No. of Disputes/Unrest	No. of Workers Involved ('000')	Causes of Disputes/Unrest: Economic		Political	
			Number	%	Number	%
1977	22	77	15	68.18	7	31.82
1978	89	113	67	75.28	22	24.72
1979	96	114	75	78.12	21	21.87
1980	104	164	95	91.35	9	8.65
1981	80	117	75	93.75	5	6.25
1982	55	22	55	100	0	0
1983	16	176	2	12.5	14	87.50
1984	142	481	15	10.56	127	89.44
1985	95	198	18	18.95	77	81.05
1986	46	106	21	45.65	25	54.35
1987	18	89	1	5.56	17	94.44
1988	9	29	4	44.44	5	55.56
1989	16	61	-	-	16	100.00
1990	5	15	-	-	5	100.00
1991	3	1	3	100.00	-	-
Total	796	1763	446	56.03	350	43.97

Source: Calculated from: Mashiur Rahman, Labor Market Competitiveness (Paper presented at the conference organized by World Bank and BIDS), Dhaka, 1993 (mimeo).

3.13 An important implication of the politicization of the union movement is that steps to overcome labor opposition to privatization cannot be confined to economic measures designed to adequately protect the interests of the workers. Parallel initiatives need to be undertaken to gear up public campaigns to explain the rationale underlying the privatization and spell out the details of the labor compensation measures. This would contribute to the process of separating what are fundamentally economic issues (for routine trade union activities) from national-level politics (which have broader objectives and constituencies to address).

Table 3.2: Settlement of Industrial Disputes by Different Methods (1977-91)

	Direct Negotiation	Mediation by Govt. Conciliatory office	Arbitration by Independent Tribunal	Unconditional Return to Work	Other Methods	Total
No.	164	161	1	344	117	787
%	20.84	20.46	0.13	43.71	14.87	100

Source: Calculated from Rahman (1993)

3.14 Excess employment in SOEs follow from several traditional recruitment practices. Networking based on commonness in the district of origin, or what is termed as districtism, is often the underlying rationale for how jobs are obtained or protected. It also helps access to housing or

emergency credit. There are also formal and informal agreements with the unions which guarantee the succession of the members of the same family into employment in the mills. The JUMS report, for instance, points out that there is an explicit agreement with unions in BTMC stipulating that if an employee retires or resigns after at least 14 years of service, a relative nominated by that employee would be given priority in filling the vacated position. In the Latif Bawani mill about 30-40 per cent of the new recruits in the public sector jute mills may have come from existing working class families. In most of these cases, the relatives of the older workers are initially recruited as temporary or *badli* workers while they are still in service. These are among the arrangements that contribute to the phenomenon of "excess employment". Excess employment takes various forms; (a) assigning more workers to machines than warranted for normal operational requirements; (b) setting employment targets on the basis of installed capacity rather than on the basis of actual production performance and market conditions; (c) hiring more temporary workers than necessary to replace absentee permanent workers; and (d) keeping large number of clerical staff and other personnel not directly involved in production. In some cases, the plant-level union leaders insist that at least a portion of new recruits be taken from the list of candidates nominated by them. Union leaders charge mediation fees from the new recruits. Another dubious practice is allotment of supply-order of raw materials to persons nominated by the union leaders. Such improprieties are allowed to continue unabated because of implicit collusion between the union leaders and the mill management.

3.15 Another important issue is the extent to which urban poverty applies to industrial labor. A rigorous estimate of the incidence of absolute poverty amongst the industrial workers cannot be derived as large-scale household expenditure surveys (HES) are not currently available. Only some tentative observations can be made in this regard. Based on information that is available from the Bangladesh Bureau of Statistics, the per *capita* per month urban poverty line has been estimated to be about Tk 441 in 1988/89 which would be roughly equivalent to Tk 510 in 1992 (adjusting for the annual inflation rate).[1/] The survey carried out by Majumdar and Zohir (1993) shows that the average size of the male industrial workers family is about 5.88, with an average 1.72 earners per family. The per household per month urban poverty line income in 1992 would thus be around Tk 3,000. Taking into account the average number of earners per family, the average monthly income of an *earner* at the poverty level would be Tk 1,744. This may be compared to a monthly wage figure of over Tk 4,000 which most SOE workers receive. Whilst the basic wages are low --- at the highest level of seniority the basic wage is 1900 Tk per month -- the benefits are considerable. On top of the nominated benefits, many workers also receive overtime and other "tangible benefits" (see Annex 10). SOE workers are by Bangladesh standards relatively well paid. They are understandably very reluctant to part with their lucrative positions.

3.16 A related issue is the persistence of the centrally determined wage structure for both wage and salaried employees of the public sector. This practice has led to a distorted incentive structure and has tended to penalize the efficient workers. The wage determination policy must be linked with productivity of worker and profitability of enterprise consistent both with the objectives of efficiency and equity. This implies segmentation of wage structure across sectors as well as enterprises. Once this principle of wage determination is recognized and implemented, substantial efficiency gains could be expected not only in the performance of SOEs but also of private sector

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1/ *This is based on mission estimates.*

entities where the prevailing public sector wage structure still remains a reference point in determining wages through collective bargaining.

Overcoming Labor Opposition to Privatization

3.17 Experience from other countries suggests that a number of reactive and proactive options are available for overcoming the problem of labor opposition to privatization. These measures include (a) advance notification regarding shutdown or large layoff; (b) provision for severance pay; (c) financial inducements for early retirement; (d) various elements of a safety net program; (e) provision for skill training leading to both self-employment and possible redeployment offers in new jobs in the private sector; (f) self-employment oriented credit schemes; (g) advocacy campaigns to develop a social consensus on privatization issues; (h) enforcement of contracts relating to employment practices after divestiture; (i) an effective code of industrial relations; and (j) workers' participation in ownership of the kind as envisaged in an Employee Stock Options Program (ESOP). Linkages between these measures are important since combining measures can increase overall impact (for instance, severance pay with job search training or small business technical assistance with financial support). Effectiveness of the compensation program can be enhanced by targeting assistance to meet the needs of particular groups. Ideally, the designing of the compensation package should ensure that (a) the reform process is not aborted by social unrest; (b) individuals do not become dependent upon an overly generous social safety net; and (c) the costs of such compensation program do not become too high. A comprehensive analysis of these concerns in the Bangladesh context is, however, beyond the scope of this section. An attempt has been made in the subsequent discussion to assess the prevailing attitude of trade union leaders to privatization and the level of acceptability of various compensation measures (and their mix) through interviews with trade union leaders, government officials and social workers.

3.18 The central message that emerges is that most of the workers and union leaders are not opposed to privatization provided the interests of the workers are adequately protected. The declining labor opposition is, in part, reflected in the changing attitudes over time towards privatization by SKOP. For instance, the 5-point demand of SKOP articulated initially in 1984 and subsequently revised in 1988, not only categorically opposed any further privatization moves (whether in part or in full) but also called for an immediate re-nationalization of the mills and companies which were privatized up to the mid-1980s. In December 1991, agreement of the government with the jute and textile unions of SKOP retained the freeze on the further privatization moves but did not press for re-nationalization. By July 1992, SKOP accepted the principle of privatization with respect to the loss-making mills provided interests of the workers are protected. The current SKOP position also upholds the same view which has been moderated further over the last one year. The principal factor underlying this change has been the observation of the ever-deteriorating performance of the SOEs, the realization that there is little scope for improvement within the existing system and that the only remaining option might have to be liquidation.

3.19 The gradual acceptance of privatization amongst the workers does not imply that they are becoming less concerned over the outcome of the privatization process. The primary concerns of the workers are (a) whether the unit will remain in production after divestiture; (b) whether it be a profitable venture; and (c) whether the welfare of the workers would be safeguarded. These

are equally concerns of GOB. With the pitfalls in managing labor and other issues under earlier privatization programs, a relationship of distrust appears to persist between labor, government and the private sector. A vigorous public relations campaign is, therefore, needed before launching a large-scale privatization program in order to dispel this basic concern of the workers. The key objective of such a campaign would be to better educate the workers (and the public) on the compelling need for privatization, gains to be expected and the safety net that would be instituted to protect workers who opt for separation. To gain confidence of labor, the terms of labor restructuring and redundancy payments should be clearly spelled out.

3.20 It is alleged during the earlier rounds of divestiture, which did not include prior debt and labor restructuring, the requirement that the new owners should keep the labor on for a minimum of one year was not implemented. After one year when the issue of retrenchment arose, the out-going workers (many with over 25 years of service) failed to get their accumulated gratuity money. In some cases, even the general provident fund money accumulated by the joint contributions of the workers and the government prior to the divestiture, was not paid to workers. Equally distressing to workers was closure of a number of large and medium-scale enterprises after the divestiture.

3.21 The need for an advocacy campaign is important also because of the lack of clarity about compensation packages. It is not altogether clear, for example, whether elements of the voluntary departure scheme (VDS) and the 'golden handshake' program often referred to by union leaders) are identical or not. The JUMS report initially suggested a package where the payment part would consist of 2 months pay for each year of service plus provident fund and interest due. The current jute restructuring project is based on this principle, and workers would receive separation benefits varying from Tk 100,000 to Tk 500,000 per worker.

3.22 In general now there is a high level of acceptance of voluntary departure scheme (VDS) amongst workers and employees. This is reflected in the favorable response shown to such schemes by the workers in BJMC, Railway and BTMC. In July 1989, the government substantially increased separation benefits for all public sector employees to encourage voluntary departure of workers. Indeed, the terms of payment under VDS appear to be generous. For instance, an SOE employee with 30 years' service will be entitled to 5 years' pay as gratuity alone. Predictably the response of the SOE workers to VDS has been positive, particularly where the financial health of the enterprise is in a dire state. In case of public jute mills, for instance, some 9,000 workers applied for voluntary separation since July 1990. About 7,600 of these applications were processed in 1990/91, compared to an expected normal retirement of 700. There are now indications that the number of workers who wish to opt for such schemes would far exceed the target. For instance, BJMC sources indicate that the possible applications under VDS would be no less than 70,000, compared with the targeted figure of about 47,000 (assuming a retrenchment rate of 30% of the current jute sector employment). It is also of interest that SKOP has not voiced any objection to the proposed compensation package. The only concern expressed by SKOP (and equally shared by JUMS report) is that indiscriminate implementation of such schemes may lead to the shortage of the more skilled and the younger workers. Data collected from BJMC suggest that VDS has indeed led to loss of workers of the skilled category, though not of younger workers. As may be seen from Table 3.3, out of 18,172 production workers of the public jute mills who have opted for VDS during FY91-93, only 15 percent belonged to the age group of 45 years and below; the share of workers in the age group of 30 years and below is still less (only 5 per cent). This may be explained by the

smaller amount of benefits that the younger workers can expect to gain from the compensation package compared with the older workers. As for the skill composition of the participants under VDS, about 65 per cent of them fall under the category of 'skilled' workers, while another 30 per cent is accounted for by the semi-skilled category. This may be compared with the current composition of the BJMC workers which shows the following pattern: skilled--58%; semi-skilled--27%; and unskilled--15%. Similar trends can be noted in the textile mills. Six hundred out of a total of 2,800 workers employed in the Ahmed Bawani textile mill have opted for VDS.

Table 3.3: Age-Skill Characteristics of Labor (Total 18,172) Participating in the Voluntary Departure Schemes during FY 1991-93 (BJMC)

		%
A.	Age (Yrs.):	
	Below 30	5
	30 - 45	10
	45 & above	85
	Total	100
B.	Skill-category:	
	Skilled	65
	Semi-skilled	30
	Unskilled	5
	Total	100

Source: MIS Dept. of BJMC. Figures are rough estimates since detailed mill-level data are not currently available.

About 70 per cent of the applicants fall under the category of skilled workers, mostly with an average length of service of 20-25 years. To discourage the departure of skilled workers through the enforcement of some strict criteria for departure may be a desirable objective, but this could introduce delays into the labor restructuring process.

3.23 As for the training and credit based self-employment schemes for the retrenched workers, suggestions have often been made that a Grameen Bank type model be adopted as a delivery system to support such intervention for industrial workers. The replicability of the Grameen Bank model in this regard may, however, be limited by the fact that it operates on the concept of peer monitoring as applied to a homogeneous land-owning group (usually the landless and the near-landless). This model may not be equally applicable to industrial workers with diverse pre- and post-migration backgrounds, particularly in the urban context. Besides, the Grameen Bank type model finances mainly simple-technology low-productivity traditional projects with very limited scale of operation. In contrast, the model best suited to the need of the retrenched workers must be able to provide necessary assistance to a variety of modern small-scale entrepreneurial activities which will require considerable expertise on the part of the support-service agency and, by the same token, would also be relatively capital intensive compared to the routine Grameen Bank type projects. At present, there is no national-level NGO operating in the country which is potentially endowed with such expertise and can be entrusted with the responsibility for carrying out the program.

3.24 Limitations associated with exclusive reliance on the Grameen Bank type model for credit delivery for self-employment, or on NGOs as the primary actors in providing technical and vocational training inputs, do not mean that the idea of proactive training and credit based self-employment schemes should be discounted. A social safety net program recently designed by GOB for workers to be retrenched under jute sector restructuring project represents one concrete model in this program. The proposed program relies on both existing NGOs as well as government sponsored training systems. The Ministry of Jute would contract with a reputable non-profit NGO to act as the principal coordinating body in delivering training services. This NGO would establish a separate Jute Training Resource Center (JTRC) with training and office facilities in Dhaka and Khulna where most of the jute mills are concentrated. The program would be implemented in a systematic manner with scope for beneficiary choices. For instance, an employee orientation module would be executed at the outset of the program within each mill explaining the various options available for retraining under JTRC. Three major options that have been identified so far include the following: (a) individual employee may not desire to take part in the training program and simply opt for receiving full separation benefit and leave the enterprise (option for non-enrollment in the program); (b) the employee would take full separation benefit and also participate in a 3-4 month skill training program and seek employment with newly acquired skills (option for skill training) and (c) the employee would receive the full separation benefit, a self-employment course and seek a guaranteed loan to partially finance the establishment of his/her business (option for self-employment training with guaranteed loan). It may be noted that an individual employee opting for the second option would be provided with a list of about 20 training courses for selection and would be required to pay about Tk 4,000 ($100) for enrollment in the training program. By contrast, those who opt for the third option would also pay Tk 4,000 ($100) to attend the six-week self-employment course including counselling as to how to draw a viable business plan. If the business plan is accepted by the JTRC, then the employee would receive a loan amount equal to one half of the contribution toward the capitalization effort.

3.25 JTRC, however, may not be adequate to meet the diverse training needs of the retrenched employees from other sectors with differing skill and occupational backgrounds vis-a-vis the jute workers. One general approach is to replicate the social safety net model designed initially for the jute sector by creating a number of JTRC-type coordination centers designed to meet the training needs of more than 90,000 employees (assuming a redundancy rate of 20%) who could eventually be deemed redundant due to labor restructuring in the SOE sector. As pointed out earlier, non-profit NGOs do not have any intrinsic advantage over others in carrying out this coordination responsibility which require considerable expertise in areas of technical and vocational training. Until alternative arrangements are in place to successfully implement such schemes, the existing training facilities offered by various technical and vocational training centers under the Bureau of Manpower, Employment and Training (BMET) could be availed of; these services are currently under-utilized. These centers appear to be a natural choice since one of the principal functions was to impart technical training in various trades to the workers of public and private sector mills. Many of the trainees on successful completion of the courses run by these centers have received overseas employment offers, particularly in the oil-rich countries of the Middle East.

Conclusion

3.26 Labor is less of an obstacle to privatization than what might first appear. This is, in part, evidenced by the seemingly moderate attitude of SKOP which has evolved over time from an aggressive position of non-acceptance of the very idea of privatization to an acceptance of its inevitability, at least as applied to the loss-making public mills. The gradual acceptance of the principle of privatization has been facilitated by the strong positive response on the part of workers and employees to the voluntary departure schemes (VDS) which were initially introduced in Railway, BJMC and BTMC. Contributing to this positive response of workers and employees appears to be the perception among them that the only other option might be for the liquidation of the SOEs concerned, while those who opt to remain expect to be better off under private sector employment.

3.27 Labor opposition is, however, expected to persist in some of the profit-making SOEs. The recent attempts of workers of Bangladesh Telegraph and Telephone Board (BTTB) to frustrate its privatization efforts illustrate the nature of problems that continue to arise. Labor opposition to privatization also derives partly from continuing apprehensions about the efficacy of privatization, based partly on the earlier experience of privatization. An active advocacy campaign is therefore needed prior to the launching of a large-scale privatization program. The task of such a campaign would be to dispel misgivings workers might have regarding the earlier experience of privatization by explaining to them the elements of the proposed design. Also, the underlying reasons why such changes envisaged in the proposed design will make a critical difference to the expected outcome, need to be clearly spelt out both in terms of likely performance of the units once privatized and with respect to the protection of workers interests.

3.28 As regards the terms of compensation, the idea of VDS (as in BJMC) needs to be supported. These schemes should be carried out prior to the sale of state enterprises. Careful consideration should be given to the skill composition of the departing workers with a view to retaining adequate number of workers with the requisite skills. While this may be difficult to enforce in practice, the attendant risks can be minimized by provision of in-job training for the retained workers (who are likely to be of the younger category) as well as options for re-deployment of departed high-skill workers who may still compete in the labor market. Existing compensation packages under VDS may be supplemented by promoting (re)training and credit based self-employment schemes for the departed workers. The social safety net model adopted for the jute sector appears to be quite comprehensive and needs to be actively promoted as far as possible for other SOE sectors as well. The scheme recently proposed by Government of establishing a Tk 1 billion fund to help in a systematic manner the financing of self-employment schemes for SOE retrenchees would be a welcome supplement to the safety net arrangements. Training facilities available in various technical and vocational training centers under BMET as well as expertise of NGOs in the sphere of targeted credit delivery may be availed of. Employee participation as in a number of countries in the form of employee ownership share plans (ESOPs) may also be applied to relevant cases, particularly in divesting entities operating in a monopolistic market and/or when the employee opposition is particularly stubborn.

Recommendations

3.29 (a) An active employee advocacy program should be undertaken.

(b) Voluntary departure schemes should be supported.

(c) Retraining and credit-based employment schemes should be implemented.

(d) Employee ownership should be applied to relevant cases.

CHAPTER 4

PREPARATION OF SOEs FOR PRIVATIZATION

Introduction

4.1 There are generally accepted procedures and processes that have been established in the privatizations that have occurred in developed as well as developing countries over the last two decades. This chapter will describe these procedures and processes in the Bangladesh context. Overlying these procedures are the important principles that have been established: transparency, disclosure and consistency. If privatization is to succeed the GOB must be beyond reproach. It can achieve this by ensuring the market is properly and accurately informed, that its processes are proper and subject to public scrutiny and that it is consistent in its approach. These themes recur in chapter 5 Financing of Privatization.

4.2 Bangladesh is fortunate in that it already has significant experience in privatization. This experience has been mixed. There have been successes as well as failures. These past failures provide valuable lessons for the future. There are a number of problems which can be identified. The existing SOEs have no real clarity of purpose, for instance, they tend to be production as opposed to profit oriented. With the exception of the jute industry, privatizations have occurred on a piecemeal as opposed to a comprehensive basis. Bureaucratic intervention has in many cases stifled privatization. The failure to account separately for valuable non income earning assets like land and the perception that SOEs have been sold at "give away" prices have given rise to opposition to the process. The perceived immediate costs of privatization, i.e., labor and debt restructuring often exceed benefits. This chapter will address these problems.

4.3 In preparing SOEs for privatization there are four main steps which must take place. These steps are (a) any policy or regulatory responsibilities of the SOE must be identified and removed from the SOE; (b) the sector in which the SOE operates needs to be reviewed; (c) the SOE needs to be evaluated in legal, financial and operational terms, and the various restructuring needs should be identified; (d) the SOE must then be valued. As a general rule any restructuring should be "de minimis" and focus on financial and legal aspects. Operational restructuring which involves additional investment should only take place where there is certainty of a significant positive return. Certainty is an exacting test which in practical terms means operational restructuring will be rare.

Policy and Regulatory Review

4.4 The preliminary step of conducting a policy and regulatory review should take place in all SOE privatizations. It will have particular relevance in enterprises (a) which display monopoly characteristics such as telecommunications; (b) where prices or tariffs have been informally controlled such as sugar; (c) where public safety requires protection such as inland water transportation; and (d) where there are public accountability and scoping requirements such as public infrastructure construction and maintenance. On a case by case basis policy and regulatory responsibilities will be identified and separated from the SOEs. Also each SOE should be reviewed to see if new regulatory or policy activities will be required, such as tariff protection or export subsidies and consumer protection. In the review of the enabling environment some deficiencies

were identified in the regulatory regime. This may mean regulatory responsibilities have to be transferred at least initially in a less than optimal manner. There is a temptation particularly with utilities to retain as much regulatory power as they can. This must be resisted.

Sectoral Reviews

4.5 The jute industry privatization and adjustment program provides a good example of the need to approach privatization at least initially on a sectoral basis.[1/] The issues that need to be addressed at sectoral level are: (a) industry profitability and dynamics; (b) optimal sector structure for privatization; (c) privatization timing; (d) the role of any government owned holding company; and (e) impact the privatization will have from a macroeconomic perspective. The jute adjustment program takes a strategic view of a post-privatization jute sector, together with a particular approach towards closure/retrenchment, financial restructuring, wage issues and the modality of privatization. Despite significant enterprise level losses in the jute industry in both the public and private sector the sectoral study found the jute industry could be returned to profitability. The study concluded there were no particular economies or diseconomies of scope or scale which warranted a major reorganization of the some 30 government owned jute mills. However, if the businesses were to be sold for positive values, capacity and manning reductions were required and debt needed to be rescheduled and retired. In terms of timing the businesses could not all be sold at once, due primarily to lack of administrative capacity. The Bangladesh Jute Mills Corporation which holds Government's interest in jute mills will be downsized in a managed gradual manner over the next five years. The jute adjustment program, however, should not be treated as a precedent for other sectors. There could be special sector approaches depending on the peculiar circumstances of other sectors. This kind of sectoral review should precede enterprise level privatization where Government has a material investment in the sector. However, elaborate sectoral reviews may not be necessary where isolated units are considered for divestiture.

4.6 *Industry profitability and dynamics*. The relevant industry must be fundamentally sound if enterprises within it are to be privatized on a going concern basis. If not, investment in the sector should be immediately liquidated. Among the industry dynamics must be reckoned the on-going import liberalization program of GOB. Industries which were once sound can become outmoded through a variety of reasons: cheaper or better quality imports can render the industry unviable, consumer tastes can change, low cost substitutes can be developed, transportation diseconomies can disappear. An example is the paper industry in Bangladesh which relies on domestic forest resources and which will either have to find other sources of raw material or face eventual demise. Also some industries may be subject to international level economies of scale and scope, for example old textile mills facing competition from large mills in Japan, Korea and China. In respect of each industry these issues must be fully understood before privatization can proceed. In the ultimate analysis, long term profitability will be determined by the dynamic comparative advantage of the country along with a growing domestic market.

1/ *Restructuring Options for the Jute Manufacturing Industry.*

4.7 *Optimal sector structure*. The present organization of government owned assets in a sector may not maximize government proceeds on privatization. There may be economies and diseconomies of scale and scope which mean for example, the combination of two businesses would produce a significantly higher value than if kept separate. Moreover capital markets may find some businesses too small or too large to acquire. An understanding of the likely profile of the best purchaser is an important component of any sectoral study. In a recent study it was observed the hotels and motels of Parjatan Corporation would be best sold separately. A similar comment was made in respect of the Inland Water Transportation Corporation.[1] In the 1992 Textile Study[2] it was observed "There are a variety of other privatization techniques that could be attempted in Bangladesh in imaginative less obtrusive ways than divestiture. Large complex enterprises can be broken up with potentially viable divisions spun off. For example the moribund marketing programs of BTMC might be privatized in combination with other initiatives and institutions." This kind of review has not taken place in previous privatizations. In each sector in which government is involved there should be a consideration of optimal sector structure.

4.8 *Privatization timing and approach*. The timing and approach to privatization will depend on these sectoral findings. For example in the jute industry there is considerable sector wide skepticism amongst the business communities as to its profitability. A leading private banker in response to a question on whether his bank would lend to the jute sector answered "definitely no". A phased approached combined with an intelligent public relations program promoting the advantage of the jute sector reforms and privatization would help improve government returns. The sectoral studies will also have an important impact on interim approaches to management. For example, BTMC has decided to close down all mills they will be privatizing as they believe there would be a significant risk of employee sabotage during the sale process, and also the desire to arrest the losses that continuing operations would entail.

4.9 *Government-owned holding entities*. In many industries holding entities exist. See Table 4.1 below. Any sectoral study will need to develop a planned approach to these holding entities in a privatization program. Some work has already been carried out in this area.[3] An ADB study recommends the legal incorporation of the holding entities combined with considerable downsizing. The study found significant organization inefficiencies existed at the holding entity level. The inefficiencies include duplication of responsibilities and convoluted accountability. In addition where divestment takes place a planned approach to reducing enterprise size also needs to occur. One local adviser commented the corporation head offices provided a significant impediment both to restructuring the enterprises and the head offices.[4] At the holding company there are a number of roles that require resolution. The above mentioned study identified research and review of sectoral developments as likely long term roles. In the interim consideration would need to be given to training, legal services, export marketing, engineering, internal audit and secretarial

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1/ *An Assessment of Recent Privatization Efforts in Bangladesh, K. Alam.*

2/ *World Bank Textile Industries Restructuring Study.*

3/ *ADB Study TA # 1635 "Strengthening Institutional Framework for Restructuring PMEs."*

4/ *A P. Morisey, ref. ch. 1.*

services. These are all services currently carried out by the holding company. Privatization will also have an impact on the holding entities financial viability. To a large extent they rely on management fees for their income. Sale of subsidiaries will mean a reduction in management fee income.

Table 4.1 Bangladeshi Holding Entities 1991

Company	No. of Enterprises	Subsidiary Employment[1]	Holding Coy Employment[1]	Total Employment
Bangladesh Chemical Ind. Corp	22	25151	1163	26314
Bangladesh Steel & Engineering Corp.	21	13171	428	13599
Bangladesh Sugar & Food Ind. Corp	33	24947	613	25560
Bangladesh Textile Mills Corp	43	44271	669	44940
Bangladesh Forest Industries Corp	15	4157	346	4503
Bangladesh Jute Mills Corporation	27	102977	850	103827
	161	214674	4069	218743

1 Excluding casuals
Source: Autonomous Bodies Unit. Quoted ADB TA #1636

Legal Restructuring

4.10 The *legal restructuring* process occurs at the entity level and the transaction level. At the entity level consideration needs to be given to legal form. This will depend on the privatization process proposed. For example, if the entity is to be floated a public limited liability company will need to be formed. Corporate formation may also be required to formalize existing defacto arrangements. However, if the assets only are to be sold no such formation is required. At the transaction level a detailed "due diligence" review of all contracts, ownership titles and loan agreements should take place to ensure; (a) the entity can assign any contractual arrangements it may have to the new owner. The difficulty is commercial contracts can have provisions that require the approval of both parties to any assignment; (b) the entity legally owns and has good title to its assets and can transfer them. Disputes over title to land have arisen from time to time; (c) all liabilities are properly identified and can be transferred. In a previous privatization it was noted a purchaser was approached by a bank who claimed an outstanding liability existed which the purchaser had not been advised at the time of purchase; and (d) assets are properly insured against possible damage during the transition period. As noted in Chapter 2, many of Bangladesh's laws are quite outdated and difficulties have arisen in the privatization process. In addition the due diligence should consider matters such as statutory compliance and deficiencies in existing documentation. It is likely the process will identify a number of impediments. The resolution of these impediments may require remedy of differences or negotiation with stakeholders (lenders, creditors, employees, customers and landlords).

4.11 The legal environment will also need to be considered. To effect the privatization changes may be required to legislation to allow the business to operate in the private sector, as for example, the amendment to the Petroleum Act, 1974 to allow private sector participation in the gas industry. In many cases industries will have their own enactments and regulations; these will need

to be reviewed on a case by case basis. In some cases new legislation will be required.

Financial Issues

4.12 In preparation for privatization, the financial issues that arise include: (a) allocating, identifying and valuing assets and liabilities; (b) identifying surplus assets; (c) developing accounting policies; (d) debt restructuring and ensuring balance sheet viability; and (e) reviewing book values. It is also important in carrying out the financial restructuring that an information base is developed for the divestment process. To this end the output from the financial structuring process must be a set of timely financial statements that are reliable and illustrate viability. If financial viability cannot be established then operations should be ceased forthwith and liquidated, the key to such viability being a reasonable expectation of profitable operations prior to considering the balance sheet position. SOE debts usually consist of NCB loans and long term GOB loans. The bulk of SOE debts to the NCBs is being addressed under the jute sector restructuring project (Tk 29 billion out of a total of Tk 47 billion). Thus most of the remaining financial restructuring will relate to the long-term GOB loans. Current arrangements are for the buyer on privatization to issue redeemable debentures in favor of GOB in discharge of this obligation.

4.13 *Asset & Liability Identification*. A comprehensive inventory of assets and liabilities is an important first step in the financial restructuring process. The inventory should cover both current and long term assets and liabilities and in the case of assets should contain a commentary on their condition (fixed assets) and saleability (inventories) and collectability (debtors). In past privatizations purchasers were required to take the current assets on an "as is where is basis". Later disputes arose about the quantity, qualities and even the existence of such assets. Though legally the buyer had no claim, the GOB had to enquire into these claims on the grounds of fairness which led to a protracted process of settlement. In some cases allocation issues will arise. Assets may be shared between enterprises or between enterprises and the parent corporation. These situations should be identified and the assets allocated. Similar difficulties may exist with liabilities. The most contentious issue in past privatization programs has been the identification of long term liabilities. In some instances liabilities were not recorded in the accounts of the company and banks/financial institutions came up with their claims after privatization. Such situations may arise, apart from a simple mistake, when the corporations might have borrowed on behalf of the company or companies without reflecting such liabilities in the accounts of the companies. In another situation, the liabilities imposed on the companies may not be justified. An illustration of the effects of confusion over long-term liabilities is provided in Box 2. Another example of such a dispute is where the liabilities exist but the buyers hold government responsible for the liabilities. A case in point is the jute industry. A decade after the privatization of the jute industry, the government is now addressing this complex issue in its totality. Meanwhile, these accumulated liabilities have grown and even threaten the viability of banks which lent to the jute industries.

4.14 The initial valuation of assets and liabilities should be on a "bottom up" basis. The net realizable value for each asset should be established. It should be based on the assumption the enterprise is a going concern (value in use) where underlying profitability is established. Where profitability cannot be established the valuation should be on a liquidation (value in exchange) basis. The "bottom up" approach has been used by the GOB as the base mechanism for establishing reserve prices in most privatizations in the last ten years. The process has not been carried out very well, with rules of thumb and book values being used as "rough" proxies for market value. The approach

is based on International Federation of Accountant Council (IFAC) accounting standards.

4.15 *Identifying surplus assets*. Surplus or redundant assets in enterprises require careful consideration. These assets, in many cases, will be land. The assets may provide an opportunity for some basic financial restructuring. The surplus land can be sold to retire long term liabilities. This practice has been quite common in many overseas privatizations. Moreover this separate identification of surplus asset helps remove one of the main popular objections to privatization. The popular perception is that in many past privatizations GOB has sold land holdings at below market value. Whether this perception is valid is not the concern, rather the concern is the existence of the perception itself. As stated earlier privatization processes must be transparent and therefore the separate identification and accounting for surplus assets is essential to meet this objective. Also when surplus land is included, the revaluation can raise prices higher than can be sustained by the operation of the enterprise.

Box 2

A decade long debt negotiation

In 1982 government undertook the program of denationalization of 26 textile mills whose debt to banking sector stood at Tk 950 million. The previous owners raised two main objections regarding these accumulated debts: (a) the mills were profitable before nationalization and hence the accumulated losses and liabilities accruing during government ownership should be taken up by the government; (b) apportionment of costs arising out of centrally procured raw materials and supplies and adjustment of liabilities due to inter-mill transfer by BTMC were inaccurate. However, the new owners signed the agreement to undertake all liabilities with the caveat that the exact liabilities will be ascertained by the Joint Audit Teams (JATs) comprising of representatives from government and the mill owners. It took almost two years for JATs to complete their reports. In the meantime, government had been attempting a variety of adhoc solutions by bringing together all the concerned parties - but of no avail. The JATs reports did not change the liabilities for six mills. The total liability calculated by the JATs stood at Tk 790 million - Tk 160 million short of BTMC calculation. However, the findings of JATs were not acceptable to BTMC and the banks because they were not given the opportunity to defend their case. To overcome this deadlock, the Ministry of Law in 1988 suggested settlement through arbitration. But no party opted for this solution.

The matter reached such an impasse that it was taken up at the level of the President in 1989 who constituted a high-powered Committee with representatives from all the concerned agencies. The Committee recommended that: (a) liabilities as estimated by the JATs be accepted; (b) the commercial banks to waive all interests charged during nationalization period (1972-1982) and 50% of interest accruing from denationalization up to 1990; (c) government to infuse cash of Tk 389 million (to offset bank liabilities) at simple interest rate to be paid in ten installments with three years' moratorium. The President approved the recommendations and the mills were asked to enter into tripartite agreement by September 30, 1990. But the decision was not implemented because BTMC and the banks considered the awards to be heavily biased against their interests. The denationalized mills did not service any debts in the intervening period arguing that any loan repayment would tantamount to acceptance of all liabilities. In the meantime, the total liability of Tk 790 million has blown nearly three fold to Tk 2.3 billion only because the parties concerned could not reach agreement about a small fraction of the total liability - a disputed amount of Tk 160 million.

4.16 *Accounting policies*. Bangladesh has no generally accepted accounting practices. As a result financial statements display little inter enterprise consistency. Whilst some enterprise financial statements are prepared in accordance with international accounting standards, others are based on practices that were outmoded 30 years ago. Local chartered accounting firms have commented that this lack of standards has lead to "pressures" from proprietors to engage in both creative and false accounting in the private sector. In a recent ADB technical assistance[1/] the consultants observed "..... are the anomalies and inconsistencies in the preparation of annual

1/ *TA # 1637 Implementation of Privatization Program for Public Manufacturing Enterprises, p.7.*

accounts, leading to inaccurate retained earnings and book value of assets". The consultants also list specific areas where problems exist, viz., depreciation, interest, prior year adjustments, provisions for gratuity and provident fund, provision for taxation and duties, retained earnings, fixed assets and current assets. Not only are there problems with the accounting information but the quality of the information itself is also doubtful. In one SOE[1/] the auditors observed the key underlying accounting records necessary to generate financial statements did not exist. In BADC it was noted there were a number of record keeping problems. These include (a) no inventory control on the value of stocks; (b) no accounting of fixed assets; and (c) no up to date records of advances and its recoverables. The importance of these three areas is reflected in the fact they constitute over 90% of BADC's assets.[2/] Not only is it clear that a set of consistent accounting policies are required which apply to all public enterprises but work also needs to be done on basic accounting records. In the absence of local standards, the International Federation of Accountants (IFAC) standards should be adopted forthwith for preparation of all public enterprises financial statements.

4.17 A related issue is the role of chartered accounting firms. At present a wide range of firms prepare and audit financial statements for public enterprises. The profession itself acknowledges there are quite disparate standards which in part are caused by the lack of accounting standards but also by a marked difference in the quality of professionals. To resolve this problem chartered accounting firms should be prequalified before being appointed to work for public enterprises.

4.18 *Balance Sheet viability*. After valuing the assets at net realizable value, identifying surplus assets and ensuring account balances are in accordance with agreed accounting policies, the key issue of balance sheet viability remains. There are three issues that need to be addressed: (a) debt to equity ratio; (b) current asset or liquidity ratio; and (c) return on assets. The debt to equity ratio will vary with type of business, and will need to take into account the nature of the business, the risks it faces, and its key business relationships. For example an asset intensive utility might be quite comfortable with a debt to equity ratio of 80/20. (State owned utilities have been observed with debt/equity ratios of up to 95/5). A manufacturing company would be most uncomfortable with anything less than a 60/40 ratio. Having established the appropriate debt/equity ratio, the actual ratio needs to be compared. The current asset ratio also needs to be considered to ensure a business has adequate working capital for its operating needs. The final check is return on assets. Because of the lack lustre profitability of the enterprises this needs to be considered in the light of potential rather than actual profitability. The potential will be calculated by the development of forecasting models.

4.19 *Debt restructuring and underlying profitability*. The book value review will take into account all the above financial restructuring steps as well as a consideration of underlying profitability. The book value reviews may indicate the need for (a) asset write downs; (b) liability write downs; (c) debt to equity conversions; (d) asset transfers; and or (e) equity infusions. In the first phase of privatization, Bangladesh did not address at all the default in payment of installments to government and loan repayment to the banks. In fact, most of the loans are now uncollectible.

1/ *Parjaton Tourist Corporation.*

2/ *BADC Report.*

In the second phase in the late eighties, this issue was indirectly handled by allocating part of the net worth as quasi-equity, (interest free loan from the government with long repayment period and moratorium with the option to convert into equity at par value). The recent jute sector study has shown the unavoidable need to write-off a large part of the debts. GOB's resistance to debt write-downs partly reflects its reluctance to appear giving away public assets while retaining liabilities. Accountability and transparency required of an elected government make outright debt-forgiveness even more difficult-particularly when the state, in order to provide a level playing field, has also to pick up debts of already privatized companies, as in the case of jute sector. Thus any debt forgiveness-either conditional on certain performance criteria or unconditional - has to be worked out very carefully taking into consideration all the relevant factors including the burden on the GOB budget. The total SOE debts to the state banks are estimated at Tk 47 billion. An associated issue is how to compensate the financial institutions whose loans are to be written off. Moreover, in some instances the SOEs might have received bilateral or multilateral funding, in which case consent of the financing agencies and amendment of the legal instruments would be necessary. Before such financial restructuring can take place underlying profitability must be established. This would mean that in the case of a business with negative net worth, which had underlying profitability, a combination of the above approaches should be applied to produce a viable balance sheet. The possibility of the buyers providing additional capital should not be overlooked here and scope for joint ventures with foreign investors should also be explored. In making any adjustments there are some wider issues that may need to be managed: (a) ensuring the banks are adequately compensated to avoid a worsening of their already weak capitalization; (b) normalizing banking relationships; and (c) maintaining already fragile financial disciplines.

Operational Restructuring

4.20 The prime purpose of *operational restructuring* is to establish whether underlying profitability exists, and the costs involved in both establishing and maximizing profitability. These costs, e.g., redundancy payouts, will have an impact in the proposed financial restructuring. It will also draw heavily on the industry sectoral work. In general terms it is not necessary to carry out the operational restructuring prior to privatization, rather only to identify the necessary restructuring and to cost out the restructuring steps. The buyer is then in a position to determine whether or not these steps are implemented. The buyer may have other plans which mean the steps identified are not required. Therefore, the optimal position is to negotiate with the buyer how operational restructuring is to be implemented. It may be best for some restructuring costs to be carried out prior to sale, for example, labor rationalization costs, or for costs to be deferred, for example replacement of obsolete plant. A recent privatization in Nepal is interesting as redundancy costs were overestimated as some bidders had plans to expand the SOEs and also wanted to make their own staff selections. This approach is based on the principled negotiation theory which notes identification and joint resolution of buyer objections will lead to a transaction and maximize return to the seller in the long run.

4.21 Operational restructuring may involve review of: (a) labor; (b) corporate governance and management; (c) operating systems and procedures; and (d) management information systems. There is scope to effect significant operational restructuring in these areas. Many SOEs are considerably overmanned, have inefficient corporate governance and management, poor procedures,

Table 4.2 Causes of Low Labor Productivity

Factor	Overall Rating	Order	BCIC Order	BSEC Order	BTMC Order	BSFIC Order	BFIDC Order
Uncertainty re the future	5.9	1	1	2	1	3	11
(eg: threat of privatization)	4.8	2	2	*3	*10	2	3
Shortage of Investment capital	4.7	3	4	1	8	*10	10
Lack of demand for products	4.6	4	9	7	2	1	12
Labor Indiscipline	4.5	5	6	8	14	*5	1
Unavailability of raw materials	4.3	6	*4	6	7	*13	4
Unavailability/price of spares	4.2	7	3	16	6	9	2
Poor quality machine	4.1	8	*6	*3	5	*5	16
Negative political factors	4.1	9	*10	9	3	*16	9
Power cuts	4.0	10	14	5	9	8	5
Poor middle management/supervision	3.7	*11	8	11	13	*10	*7
Poor maintenance of machinery	3.7	*11	10	9	12	*13	*7
Absence of quality training	3.3	13	*10	15	15	7	6
Shortage of skilled labor	3.2	14	*15	12	4	17	15
Absenteeism	3.2	15	*15	14	*10	12	*13
Poor industrial relations	2.5	16	17	13	15	4	17
Excess labor/constraints on retrenchment	2.2	17	*10	17	18	15	*13
High labor turnover	1.1	18	18	18	17	18	18
Unsuitability of premises							

*Note: * Designates a joint rating*
Source: Consultants' Analysis of Enterprise Feedback, ADB TA# 1636

4.22 Labor restructuring has been the major type of operational restructuring that has taken place in past privatization. The arrangements worked out were for labor to be given voluntary separation schemes prior to the sale of the SOE and for the requirement that new owners should keep on remaining labor for a minimum of one year. Current arrangements are for agreed labor restructuring to take place prior to sale and with no obligation on the buyer to retain any surplus labor. There are two kinds of labor restructuring costs: (a) payment of existing entitlements in respect of gratuities and pensions; and (b) payment of redundancy entitlements for workers and staff with long service records. Past privatizations in Bangladesh have avoided the contentious issue of labor redundancy but required the new owners to keep the labor for a minimum period of one year. This was done, for among other reasons, to speed up the process and to let the private sector deal with labor redundancy at its own pace. Much against the predictions made by the unions during the time of privatization about the subsequent job loss in the textile mills, the reductions only averaged around 10% over the first few years - mostly of staff rather than workers.

4.23 Redundancy is a difficult area. There is a need to be fair to employees but at the same time any payments should not be over generous. Overgenerous redundancy for example could provide such a disincentive to privatization that it cannot proceed. In a recent study in one scenario where 34,000 manufacturing enterprise employees were retired the total redundancy cost was calculated at $US200 million and in many cases the redundancy costs per enterprise would exceed the value of the enterprise. As some SOEs do not have sufficient resources for payment of the legal dues of workers, viz., accumulated provident fund and gratuity, the burden of meeting this obligation may ultimately fall on GOB. Vigilance will also be necessary to prevent diversion of funds for payments in respect of ghost workers on SOE payrolls. There have already been some redundancy arrangements negotiated and these arrangements tend to set the benchmark for future redundancies.

The redundancy payments to date have been equivalent to two to three months wages for every year in service. Other possible mechanisms might include spreading payments over a longer period; lowering retirement ages; attrition and transfer to stakeholders.

4.24 *Impediment Review*. In each of the preceding restructuring reviews the focus has been internal, i.e., the resolution of internal structural deficiencies. The impediment review moves to considering significant external impediments to the privatization process. This might for example arise from claims from the former owners of some abandoned industries. In the case of agricultural businesses growers may feel they are the owner of agricultural marketing organizations. Other "non-ownership" type of impediments could include government policy. There may be explicit or implicit policy barring a monopoly industry to be privatized. For instance, the reserved public business in case of Biman (national airline) and BSC (national shipping line) could not be passed on to private owners. In such situations law/rule/practice governing such reserved rights would have to be amended. The earlier restructuring review would be significantly influenced once such business opportunities are revised. The review of impediments should take place at a fairly early stage in the privatization process.

4.25 One particular impediment GOB should pay particular attention to is environmental liabilities. As part of the preparation for sale a brief environmental audit should be undertaken. The audit should consider both upstream and downstream issues. Upstream issues will look into reliance on inputs that have significant negative environmental consequences. There may be a future cost or availability issue in respect of these inputs. Downstream issues include identifying pollutants created by the enterprise, the consequences of those pollutants and how they are disposed. Where a problem is identified the cost of managing those pollutants should be calculated. The audit should also consider safety issues, to ensure processes have sufficient safeguards to prevent a Bhopal-type tragedy.

4.26 *Cost Implications of Restructuring*. In some privatizations the costs of restructuring will be substantial. This is the case in the jute industry restructuring where there are substantial labor and debt restructuring costs. As already noted (Chapter 2) separation payments to workers in the entire SOE sector could total at least Tk 18.1 billion (US$453 million). Again the outstanding debts of SOEs to the nationalized commercial banks amount to Tk 47 billion (US$1,175 million). Of this some Tk 29 billion relates to the jute sector and is to be restructured under the jute restructuring project. There are several possible sources of financing for restructuring costs linked to privatization: (a) the company's internal resources; (b) the proceeds of past privatiziation; (c) support from multilateral and bilateral donor agencies (for which effective donor co-ordination will be essential); (d) the GOB itself; and (e) combination and permutations of the above. The financing approach needs to be treated on a sector by sector basis.

Valuation of SOEs

4.27 In valuing SOEs for sale the purpose of the valuation needs to be considered; in some cases to set price, in others to set a reserve. Materiality also should be considered; where businesses are small and relatively unprofitable reserve prices should be set in a simple cost effective manner. These factors mean detailed valuations should only be undertaken where businesses are either likely

to have significant value and or where the value will set the price. There is a danger that must be avoided of placing undue reliance on valuations, particularly where there is likely to be active bidding interest in the enterprise. Moreover, as privatizations to date have shown in Bangladesh the markets are relatively thin and tend to attract a relatively small number of buyers. This means valuations will be important because of widespread popular concern that assets are being sold at a discount.

4.28 *Financial Consequences of Valuation*. With the valuation established, it should then be compared with the valuation calculated at the time of financial restructuring. This comparison will provide a reasonableness check, the "top down" approach, on valuations. In some cases, it may mean accounting values are overstated. The valuation also is an important indicator that can be used in determining how and when any privatization takes place.

4.29 *Interim Management*. The final issue in preparing SOEs for privatization is how they are managed in the period up to when they are sold. There are three options: (a) leave them as it is; (b) close them down; or (c) restructure them. The answer is dependent on several factors such as their current profitability, their performance of essential functions. e.g., telecommunications, their importance to business confidence, e.g., banking and insurance and the proposed method of sale. The issue can be best addressed on a case by case basis keeping the relevant factors in mind. The general framework for management of SOEs and SOE reform is discussed in Chapter 8 below.

Conclusion

4.30 Proper preparation for sale is an essential precursor to the privatization of SOEs. In most previous privatizations in Bangladesh preparation for sale has not been properly carried out. The businesses have tended to be sold "as is where is". There has been little consideration of the optimal shape of the sector (jute being a welcome departure from past practice). Due diligence type procedures have not been applied on assets and liabilities, so disputes have arisen on existence, quantity and quality. Surplus assets, notably land, have not been identified and separated. Failure to account for land has significantly distorted privatization efforts to date by encouraging financial buyers as opposed to operational buyers. Operational restructuring requirements have not been assessed systematically. Valuations to set reserve prices have been carried out in an inconsistent and dissonant manner. These deficiencies can be remedied by; (a) establishing a proper approach to preparation, incorporating the above points and; (b) employing adequate and competent professional advice in the preparation process.

Recommendations

(a) Sectoral reviews should precede enterprise level privatization where GOB has a material investment in the sector.

(b) A detailed financial analysis should be carried out in all cases.

(c) Underlying profitability must be established before any financial restructuring takes place. Where industry level profitability does not exist, SOEs should be liquidated.

(d) No new investment in SOEs should be undertaken in preparation for privatization.

(e) The options for transitional management for SOEs should be evaluated to establish the best choice.

CHAPTER 5

FINANCING OF PRIVATIZATION

Introduction

5.1 This chapter deals with the implementation of privatization transactions, with the focus on financing of privatization. The implementation of a privatization transaction requires consideration of: (a) definition of Government's objectives in respect of the privatization; (b) assessment of the absorptive capacity of both local and foreign capital markets; (c) identification and resolution of likely buyer objections; and (d) the transaction financing process itself; (e) the financial condition, size and track record of the SOE; and (f) the sector of activity of the SOE. In addition to these points the Government should also examine ways in which it can enhance its transaction proceeds by introducing policy changes or regulatory mechanisms which: (a) expand the size of the capital market; (b) reduce buyer objections which are of a business environmental nature; (c) increase buyer returns by increasing cash flows through lower taxes and the like; and (iv) allow for innovative financing mechanisms.

5.2 As stated in Chapter 4 the principles of transparency, consistency and disclosure should always apply. The public must be reassured that state assets are not being sold too cheaply and there should be adequate publicity about the goals of the sale. Buyers must feel they are being fairly treated, the information they are given must be comprehensive and accurate, and the sale process should take place in a disciplined and timely manner. In the absence of such arrangements the privatization process itself can become derailed. For example, buyers can claim other buyers were given preference or inside information. In the United States of America the biggest single impediment to privatization has been public and political opposition. A properly conceived and implemented privatization process is the only way to disarm this opposition.

5.3 There have been concerns expressed in Bangladesh that there is a dearth of buyers and entrepreneurs, and that the market is so small that it cannot absorb the proposed privatization. The finding of this study is that these are not the problems or obstacles to privatization. For smaller non-utility good quality SOEs in manufacturing, textile, and banking, there will be no shortage of local buyers. An emerging entrepreneurial group does exist as is to be expected in a private sector dominated economy with some striking export successes. Rather the constraints to privatization will be: (a) the administrative ability of government and the private sector to handle the volume of transactions required; and (b) the regulatory, bureaucratic, and political impediments that exist. For utilities, e.g., telecommunications, electricity and gas and other large SOEs foreign capital will be essential for their successful privatization. It is also clear the GOB could do more to enhance its returns. Its marketing of transactions has been poor, the information presented has been meager and it has not been at all innovative in the privatization techniques proposed. Not surprisingly one of the more frequent criticisms of recent privatizations has been that even when bidding procedures were adopted, the sales process has not been truly open and competitive.

Net Worth of SOEs

5.4 A profile of the SOE sector is set out in Chapter 1. Based on this data and application of the valuation principles outlined in Chapter 4 estimates were made of the upper (and a lower) limit aggregate net worth of the SOE sector. The ten largest non financial SOEs account for an estimated 75% of the total value of all SOEs. The top 2 (BPDB and BTTB) account for 51%. The results of the valuation are set out below in Table 5.1. Despite losses being incurred in many SOEs, positive values have been established in many cases. This is the result of one of two factors: (a) profit-earning capacity of the enterprise with proper management; (b) high value of the underlying assets, particularly land. The indicative valuation shows the SOEs have an upper limit value of US$3.62 billion (and a lower limit value of US$2.3 billion). These SOE valuations have been established solely for the purpose of (a) assessing Bangladesh's absorptive capacity for the privatization; and (b) defining the overall scale of the sector. Valuations of individual SOEs for other purposes such as for privatization itself, will necessitate significant further detailed analysis and evaluation. It should be noted that considerable costs such as redundancy payments will be incurred in many privatizations which will significantly reduce GOB's proceeds from privatization. Whilst the valuations can be significantly refined, the values established help in defining the size of the privatization and assisting in segmenting the SOEs. Industry segmentation is shown in Table 5.2. Analysis of the valuation highlights the significance in value terms of the utilities. It is estimated they account for in excess of 66% of the total value of SOEs. The majority of these utilities are monopolies.

Addressing Absorptive Capacity: Local and Foreign Sources of Capital

5.5 Local Sources. Local capital sources can be segmented into three broad categories; (a) local formal equity and debt markets; (b) local informal or underground equity and debt markets; and (c) foreign equity and debt markets. These markets all provide prospects for capital to finance the privatizations. At present, liquidity levels are high. In the formal banking system US$150 million is in surplus of banks liquidity requirement and is available to lend. Over US$4 billion (Tk 160 billion) had accumulated as time deposits with banks at the end of 1992.

5.6 Local Formal Equity Market. This market has two parts, private capital and the stock market. Private capital is at present sourced from two main groups: (a) a small set of long established "family based" industrial and commercial groups, e.g., Beximco and Islam; and (b) a class of recently established entrepreneurs who's wealth is based on the flourishing garment export industry. The latter group is estimated to have between them Tk 25 - 30 billion (US$625 to US$750 million) available for investment. The two groups together could have available upward of US$1 billion of capital for total private investment. Of this total at most 25% may be available for the privatization. These private sources tend to be shrewd, resourceful and highly commercial. Their interests are only likely to be aroused if they see the potential for above-market returns with relatively low risk.

Table 5.1: Estimation of Networth of SOEs
(As at 12/31/92)

		Lower Limit US$ million	Upper Limit US$ million
1.	Bangladesh Power Development Board	800	1150
2.	Bangladesh Telegraph & Telephone Board (BTTB)	500	700
3.	Petrobangla	100	150
4.	Chittagong Port Authority	100	150
5.	Bangladesh Petroleum Corporation	100	120
6.	Rural Electrification Board	50	100
7.	Zia Fertilizer Factory	50	90
8.	Chittagong Fertilizer Factory	50	75
9.	Sonali Bank	25	75
10.	Bangladesh Biman	25	70
		1800	2680
	Textile Mills Corporation	10	60
	Steel Engineering Corporation	10	40
	Sugar & Food Industries Corporation	10	40
	Chemical Industries Corporation	20	100
	Bangladesh Forest Industries	Nil	Nil
	Bangladesh Jute Mills Corporation	Nil	Nil
	Other Utilities and Infrastructure	400	500
	Other Financial Institutions	20	100
	Other (mainly transportation)	30	100
		2300	3620

Notes *(1) Redundancy payments will reduce GOB's proceeds from privatization.*
(2) Negative Net-worth Companies valued at Nil.
(3) Chemical Industries Corp. figure excludes Zia and Chittagong Fertilizer Factories.

Source: Staff Financial Analysis

5.7 In addition to these groups, there are other potential private sources of capital. These include: grower cooperatives, workers' groups and cooperatives, and management. Whilst there are no examples of cooperatives acquiring SOEs to date, there are examples of workers and management taking up shareholdings. In some earlier privatizations 14% of the shareholding was earmarked for employees. In the private sector the sale by ICI of its pharmaceutical holdings to ACI is an example of a Management Buy Out (MBO). This source of capital if worker redundancy entitlements are factored in could be over US$100m.

5.8 The stock market is the main source of public equity. It is through the stock market that groups such as pension funds, mutual funds and small individuals can invest in companies. There is a further aspect to the stock market in that the companies themselves represent a potential source of capital by harnessing their financial strength. In terms of size the capitalization at end 1992 was US$314m. Refer Tables 5.3 and 5.4 below: The market capitalization reached a peak of 2.25% of GDP in 1987. This compares with market capitalization ratios of 6.7% for Pakistan, 13.4% for India and 69.1% for Malaysia (1988).

Table 5.2: Segmentation of SOEs

Segmentation of SOEs		Upper Limit $US million
Top 2		
Power	(BPDB)	1,150
Telecommunications	(BTTB)	700
		1850
	Other Utilities	520
	Transport Sector	150
	Finance Sector	175
	Other Infrastructural Enterprises	505
	Manufacturing Enterprises	420
	Total	3620

Source: Staff Financial Analysis

5.9 The Dhaka stock exchange has estimated the stock market could absorb about US$50 to US$60 million per annum. The exchange also observed that if the GOB relaxed restrictions it had placed on pension funds and allowed the funds to invest in the exchange the total capacity could rise to US$100 million per annum. This relaxation is recommended. Creation of mutual funds would also develop the stock market as will the promotion of financial intermediaries. Strong interest has been shown in the past when Investment Corporation of Bangladesh (ICB) floated closed end mutual funds. Unfortunately these funds were not well managed. Future funds must be managed independently and professionally. Another factor that limits the stock exchange and equity markets are the very high real interest rates that have existed in Bangladesh. Refer Table 5.5. These high rates attract funds that would otherwise be available for the equity markets.

5.10 The stock exchange's administrative capacity is quite limited in terms of its ability to handle a large volume of transactions. Local brokers have advised businessmen that they are unable to organize issues of greater than $1 million. Large transactions have previously been handled by the banks, by foreign investment bankers or by direct placements. In handling the large transactions the stock exchange members will require the support of these other institutions.

Table 5.3: Market Capitalization (Total Value of Shares in the Stock Market)

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
				US$ Million						
34	48	87	113	186	405	430	476	321	269	314

Source: Dhaka Stock Exchange

Table 5.4: Top 20 by market capitalization

Market Capitalization of the 20 largest companies (30 June 1992)			
	Sector	Market Capitalizaton	
		Tk Mill.	% of Total
Bangladesh Tobacco Company Ltd.	Food	1800	13.69
Bangladesh Oxygen Ltd	Fuel & power	924	7.03
Glaxo	Pharm & Chem	888	6.75
Bata Shoe	Footwear	684	5.20
Sonali Paper	Paper & Printing	498	3.79
City Bank	Banking	448	3.41
Monno Ceramic	Misc	342	2.60
Chittagong Cement	Misc	333	2.53
AB Bank	Banking	300	2.28
Rupali Bank	Banking	261	1.98
IFIC	Banking	247	1.88
Ashraf Textiles	Textiles	246	1.87
Tamijuddin Textiles	Textiles	244	1.86
Islami Bank	Banking	241	1.83
Beximco Pharma	Pharm & Chem	231	1.76
Reckitt & Coleman	Pharm & Chem	231	1.76
NBL	Banking	229	1.74
Eastern Cable	Engineering	201	1.53
IGB	Investment Fund	200	1.52
Al Baraka Bank	Banking	179	1.36
Sub-Total		8,727	66.37
Market		13,150	100.00

Source: Smith New Court

Table 5.5: Real Interest Rates at NCBs

	Deposit Rate	Term Loans	Commercial Loans
January 1990	2.9%	4.1%	7.3%
January 1991	4.8%	5.9%	9.2%
January 1992	5.0%	7.3%	8.9%
July 1992	4.7%	9.7%	11.8%

Source: Technical Unit, Bangladesh Bank

5.11 *Local formal debt market*. The formal debt market is dominated by the large government owned banks. Refer to table 5.6. In addition there are number of private sector banks some of which are either fully or partly foreign owned. Besides these large commercial banks, there are also other specialized banks and institutions in the public sector. SBC is in the business of general insurance (fire, marine, vehicle, etc.) whereas JBC is a life insurance corporation. Both the insurance organizations have large investment funds, a part of which may be invested in the stocks of privatized enterprises. Recently GOB sold its holdings of shares in foreign owned multinationals to SBC.

5.12 The banks which have good liquidity, and as a result funds to lend, are in the case of the state owned banks overly bureaucratic or in the case of the private sector banks highly risk averse. The state owned banks have been known to reject an otherwise sound lending proposition or slow the lending process with interminable delays. Meanwhile the private sector banks are highly selective in who they do business with. They will exclude sectors such as jute from their lending and only deal with people with a sound track record. The net effect is while the banks represent a major source of assistance to buyers, in practical terms their influence is likely to be quite small. As already noted, access to credit and procedural difficulties in obtaining credit from banks have been among the main problems reported by private businesses.

Table 5.6: List of Top Four Banks by Assets

		Taka Million
1.	Sonali Bank	82,854
2.	Janata Bank	51,088
3.	Agrani Bank	44,655
4.	Rupali Bank	22,023

Source: Staff Analysis

5.13 *Informal debt and equity markets*. These markets are quite significant in Bangladesh and arise from a number of sources: (a) tax evasion; (b) smuggling and other illegal activities; (c) curb financing. Bangladesh has one of the lowest tax collections to GDP ratios in the world. Smuggling between India and Bangladesh is widespread and includes a number of basic commodities and requisites. Curb markets already exist in the financial sector where quite high rates of interest are charged. These capital funds known as "black money" which are inestimable may in total equate to the normal private sector. This market represents a significant potential source of funds for the privatization process. Mechanisms to capitalise these funds for the private sector might include some form of privatization fund that could issue bearer bonds.

5.14 *Foreign formal equity and debt markets.* Foreign capital markets represent a potentially large and inexhaustible source of funds for privatization. There is interest and that is reflected by the existing investments of foreign corporations in Bangladesh, e.g., Hoechst, Singer and Bata, although the investment record to date is minimal. While as Table 5.7 shows a substantial volume of foreign investment has been sanctioned, actual foreign investment is miniscule. There is foreign interest from both multinationals and investment houses. Apparently some of the investment house interest is based on resident Bangladeshis wishing to invest "black money" in Bangladesh. In addition to these capital sources, Bangladeshis resident abroad, the overseas Islamic community and India are potential sources, of foreign capital. In FY93 Bangladeshi worker remittances totalled US$942m. The remittances were equivalent to 40% of Bangladesh's exports. One way Korea developed foreign capital was through listing a closed end investment fund on the New York Stock Exchange. One international investment house advised the Mission there was interest in establishing a US$25m fund for investment in Bangladesh. Another avenue of investment are various funds administered by international agencies such as the International Finance Corporation (IFC) and the Asian Development Bank. The IFC has been instrumental in establishing 26 country funds and 14 venture capital funds. In addition IFC has helped create several multi country and regional funds. The possibility of both establishing a Bangladesh country fund and accessing these wider Asian Investment Funds as well as these other foreign sources of capital should be considered.

Table 5.7: Sanctioned foreign direct investment compared with Realized Foreign Direct Investment and Gross Domestic Investment 1985-1992

Year	Number of Units Sanctioned	Net Sanctioned Foreign Direct Investment ($ Mill.)	Realized Foreign Direct Investment ($ Million)	Gross Domestic Investment ($ Million)
1986	8	8.2	2.4	1916
1987	17	143.3	3.2	2220
1988	17	107.0	1.8	2241
1989	11	76.5	0.2	2374
1990	34	113.7	3.2	2493
1991	25	17.1	1.4	2237
1992(up to Aug)	13	34.7	n.a.	2386

Sources: Board of Investment and Bangladesh Bureau of Statistics

5.15 The main issue for foreign investors is the level of risk perceived in Bangladesh in relation to the potential reward. Factors foreign investors will take into account are: (a) the size of local markets; (b) the level of competition; (c) the degree of regulation; (d) the costs of operating, including taxes; (e) ease of capital movement (entrance, profits, and exit); and (f) general political stability, infrastructure and public safety. In a recent World Bank study, consultants concluded the following in respect of foreign investment in telecommunications: (a) foreign investors would be unwilling to undertake long term capital intensive projects because of a perceived risk of political interference; (b) concerns on law and order; (c) the market was too small and infrastructure was weak; (d) and climatic (cyclone) risk was very high. Albeit small, some foreign investment is taking place, particularly in areas where labor intensive products are being manufactured. Japan is focussed as a source of foreign investment by many Asian countries including Bangladesh. As regards stock

market investment by foreign investors, foreign investment houses note the major impediment to investment is lack of liquidity in the market. Historic daily trading volumes range from 5000-8000 shares per day and on occasions when lump sum investments from foreigners have exceeded US$50,000 a material impact on share prices has resulted. If market liquidity increases foreign investment will also increase. Privatization has the potential to improve this liquidity by increasing the overall size of the market, which in turn will increase the market's ability to absorb privatizations.

5.16 *Market capacity*. Review of these various markets shows there is sufficient local market capacity to absorb the majority of the smaller SOEs such as in manufacturing textiles and banking over a short to medium-term time frame (5 years). However, for the larger transactions such as the utilities, these can only be privatized with a substantial component of foreign equity. The market capacity is summarized in Tables 5.8 and 5.9 below. This table shows that there is substantial capital available within Bangladesh. However, only a relatively small proportion (25%) of this local capital estimated at over $3 billion over a five-year period could be expected to be available for the privatization. Local investors will have a variety of competing uses for their capital, such as existing business expansion.

Table 5.8: Potential Equity Available for Investment and Key Impediments

Equity Market Segments	Potential Equity US$million	Key impediments to investment
Local Formal Markets		
- private sources	1000+	- return on investment
- stock exchange	50-100pa	- administrative capacity of stock exchange
- other sources	100 p.a.	- mechanisms to invest required
Local Informal Markets	1000+	- mechanisms to invest required
Foreign Markets		
- Bangladeshis abroad	100+	- mechanisms to invest required
- Multinational investor	∞	- size of opportunity
- Institutional Investor (Investment houses)	∞	- lack of liquidity in stock market - country risk perception
- multilateral funds	100+	- fund criteria - lack of Bangladesh specific fund

Source: Staff Analysis

5.17 Based on the foregoing analysis the local capital available over a five-year period for the privatization program has been estimated at US$800 million. This analysis is confirmed in part by the Metropolitan Chamber of Commerce & Industry's view that the private sector would not be able to take over all of the public sector. Over a 5 year period they estimated a total of 15-20% of SOEs could be absorbed by the local private sector. The balance of funding will therefore involve

some combination of foreign capital, possible use of payment terms by GOB, trust mechanisms and stakeholder transfers. Of these, foreign capital will be the most important. However it is clear if the business community believe an SOE is worth buying, capital could be found in the larger cases in joint venture with an overseas partner. ICB quote for example the interest in the proposed sale of DBL. They noted one prominent entrepreneur wanted 60% of the shares. They also believe fertilizer and chemical businesses would be oversubscribed.

5.18 At present the GOB has instituted with the support of the ADB, a comprehensive Capital Market Development Program. These moves which are to be implemented progressively over the next three years will significantly assist in the development of the formal capital markets.

Table 5.9: Market Evaluation Analysis

Market Segment	Upper Limit Value $USm	Local Formal and Informal Markets	Foreign Markets
Top 2 (BTTB, BPDB)	1850	Transaction Too large for local markets to participate in a meaningful way	Definite Interest
Other Utilities	520	Some transactions will be possible	Some interest possible
Transport Sector	150	Transactions can be absorbed but may need to be restructured, e.g. broken up into smaller companies.	Possible interest in Biman
Finance Sector	175	Transaction will require expertise and /significant new capital	Possible Interest
Other Infrastructure Enterprises	505	Some transactions will be possible	Possible Interest
Manufacturing Enterprises	420	Transactions can be absorbed by local equity markets	Interest in quality

Source: Staff Analysis

5.19 *Identification and Resolution of Buyer Concerns*. In readiness for the privatization transaction consideration needs to be given as to how buyer concerns will be addressed. Buyer concerns will have a direct relationship to the price they are prepared to pay. However resolution of concerns has a cost, so in each transaction there will be a trade off to consider. Buyers will typically have the following concerns: (a) certainty of ownership; (b) reliability of financial information; (c) disclosure of contingent liabilities if any. There are three factors commonly used to resolve these buyer concerns: (a) the quality of the information provided; (b) buyer due diligence, i.e., buyer inspection of financial records and assets; and (c) the provision of warranties by the seller. The starting point will be a well prepared sales information package. It is important any such package is reviewed at the appropriate level for inter-enterprise consistency and compliance with policy.

5.20 Transactions costs and delays in implementing transactions will be factored into the buyers proposed pricing. Transaction costs that are government charges will have a neutral impact in terms of the GOB. These include stamp duties and property transfer taxes. Property transfer taxes are significant up to about 25% of the capital value of the transaction. Other costs and delays can be significant. One multinational company noted they had waited 2½ years to get approval for one property transaction.

Evaluation of Privatization Methods

5.21 Having calculated the value, considered the state of the businesses and identified likely buyers, the privatization method needs to be selected. The methods discussed are: (a) private treaty sales; (b) public offerings; (c) liquidation; (d) free of charge transfer; (e) transfers to stakeholders; and (f) innovative financing mechanisms. Table 5.10 summarizes these alternatives. Annex 11 provides a more detailed discussion. The 1992 Textile Study[1/] noted "Bangladesh has not adequately investigated the possibilities for use of these other privatization methods and techniques for entities in the country's textile subsector".

5.22 *Partial Approaches*. There are a number of combinations and permutations of these financing methods. Some of these have been attempted in Bangladesh. The combination of public flotation, government retention and transfer to stakeholders has been tried. Whatever the combinations attempted, the arbiters of success will be: (a) is the enterprise subject to the disciplines of the capital equity and debt markets; (b) is the management of the business commercially competent; and (c) are the businesses' prime objectives commercial? In many cases where less than 51% has been sold the business has not been subject to private sector market disciplines, management has not changed and the business has retained many of its non commercial public sector objectives.

5.23 Each financing alternative and for that matter each entity will have different requirements in terms of: (a) information prepared; (b) marketing; (c) legal, financial and operating restructuring required; and (d) benchmark valuations.

5.24 *Private Treaty Sale*. These private treaty transactions can be handled by: (a) auction; (b) open sale; (c) brokered transaction; and (d) open tender. In Bangladesh the common method has been tender. This method has the advantage of fairness and certainty in terms of timing but has the disadvantage of not necessarily maximizing the price. While in most cases open tender will be the best method, for some large transactions where special purpose or foreign buyers are sought, broker managed transactions are recommended.

1/ *Textile Industries Restructuring Study, para. 8.4, p.38.*

Table 5.10: ***Evaluation Matrix of Financing Alternatives***

Financing alternative	Existence of special purpose buyers or stakeholders	Track record and reasonable certainty of viability	Size of transaction	Positive network	Ability to separate assets or organization
Private Treaty Sale	Special purpose buyers exist	Not necessary	All sizes	Necessary	Not necessary
Public Offerings	Interest of special purpose buyers and stakeholders law	Necessary	Medium to large	Necessary	Not necessary
Liquidation	Not relevant	Must be unviable	All sizes	Not necessary	Not necessary
Free of Charge Transfer	Stakeholders exist and have strong interest	*Not necessary	Small to medium	Not necessary	Not necessary
Transfers to stakeholders	Stakeholders exist and have strong interest	*Not necessary	Small to medium	Necessary	Not necessary
Innovative Financing Mechanisms	Special purpose buyer required	Necessary	Large	Necessary	Necessary

(*) *There should be reasonably good prospects of viability*

5.25 The tender sale process as applied in Bangladesh could be improved. Prequalification of tenderers in terms of their financial capacity and management capability should be considered. In certain situations (normally monopolies) future investment plans may also be a relevant criteria. However, if any such prequalification cannot take place in an environment totally free of corruption and delay then they should be avoided. In current tender documents for partial privatizations it is noted "offers with the following particulars will be given preference." The particulars include, management track record, financial standing with GOB and investment plans. In the marketing area a lot more work could be done in terms of publicizing the transactions in Bangladesh and overseas. Use of trade journals, investment houses and the press are a few simple marketing mechanisms that could be used. Consideration should also be given to publicizing the base price prior to bids being solicited.

5.26 There have been some recent examples where companies with negative net worth were tendered. In the case of Metalex the positive price offer was so conditional that it could not be considered. Squibb was "vied" by one bidder only. The problems GOB had with Rupali Bank are illustrative. When it was initially privatized only about 17% of the bank was sold, which compares with a planned sale of 49%. Later when large provisions resulted in the bank showing negative net worth Government had to pay in new capital, thereby increasing its shareholding from 83% to 93%. Where a company has negative net worth or is not viable it should not be sold by tender, it should be financially restructured or liquidated.

5.27 One process which could be considered is the use of an indicative tender process. This would build on the existing tender framework mentioned above. Bidders are required to provide an indication of price and their plans and abilities to develop the business together with comments on matters such as redundancy, training, employee and public shareholding and

environmental issues. The Government then enters into discussions with all bidders on points such as level of redundancy, method of payment and future operations. Whilst little gain can be expected in terms of price, some useful concessions could be extracted from bidders.

5.28 The use of brokers or "advisers" for large transactions has been a common practice overseas. The advisers would be expected to prepare a sophisticated information package, recommend pricing, identify buyers, organize due diligence and assist in the negotiations for sale. Brokers have been used by local Bangladesh companies to raise foreign capital. Brokers would expect to be rewarded on a combination of retainer and success fee.

5.29 *Public Offerings*. Public offerings will require a lot more work than a private treaty sale. A limited liability company may have to be incorporated; articles and memorandum of association drafted, legal documentation to acquire the assets and liabilities will need to be executed. A prospectus will need to be prepared. Not only will it have to comply with securities and listing requirements but as it will act as the prime marketing document and will need to be well prepared and supported by a comprehensive business plan. For example, DBL will shortly be floated. Institutional investors requested the opportunity to review the business plan, but were advised a plan did not exist and would be determined once the company is floated. This affects their ability to invest. A valuation will need to be prepared that is accurate in terms of the market. Normally the valuation will be prepared independently and then negotiated with the organizing broker.

5.30 The business plan, referred to above, should contain a description of management and the board, operation, current and future profitability and commentary on the markets they are in. In particular the quality of the board and the adequacy and dynamics of markets were seen by institutional investors as important contents of the plan. In some cases a significant shareholder with management expertise might be an important element. An example of the need for a business plan is the Usmania Glass Company. The glass company which was quite profitable when privatized, quickly became unprofitable when glass tariffs were reduced. This risk should have been identified and discussed in the business plan and at least mentioned in the prospectus.

5.31 *Liquidation*. As noted earlier any liquidation should be handled independently. Offers should initially be sought from the marketplace for the business as a whole. In other privatization liquidations buyers have been identified who are looking for facilities and manpower. If no acceptable total offer is available then the business should be broken up and sold.

5.32 *Free of charge transfers*. These transfers will take a similar form to private treaty sales. However a lot of work will be required to define in an equitable manner the stakeholders who are to receive the shares. If for example it is decided growers should receive shares a range of questions could arise; (a) how many shares each grower receives; (b) the territory in which grower residence is defined; (c) what happens to growers who have retired, do they have an entitlement; and (d) who is the grower, landlord or tenant? Where a free of charge transfer takes place, the criteria agreed should be subject to public scrutiny and allocations should be published.

5.33 *Transfer to Stakeholders*. As with free of charge transfers there are a number of definitional issues that need to be worked through. However where the transfer is priced at market, and the pricing has been derived in a transparent manner the issue of public scrutiny of the allocation

process is less important. It should be noted transfers to stakeholders in past Bangladesh privatizations have taken place at a significant discount to market values.

5.34 *Public/Private Sector Partnerships*. These are discussed in chapter 6 below. However it should be observed these techniques, whilst not sophisticated, often deal with very valuable assets which have international value. For larger transactions professional assistance should be sought.

5.35 *Evaluation Matrix*. Table 5.11 provides an evaluation matrix for the design of sales process.

Table 5.11: Evaluation Matrix for Design of Sales Process

Financing Alternatives	Information Requirements	Restructuring Required	Marketing	Valuations	Buyer Qualification Identification
Private Treaty Sales	• Inventory of assets and liabilities • Business plan	Minimal, may be some legal and financial restructuring	Depends on size and type of transaction but can range from minimal to significant	Benchmark valuation required to establish reserve prices	Financial viability
Public Offerings	• Prospectus • Business plan	Significant restructuring may be required	Widespread marketing required, including for large transactions foreign marketing	Market price to be established in negotiation with brokers	• Spread of shareholding to be decided • Stakeholders interests • Need for management control
Liquidation	Inventory or assets and liabilities	N/A	Tender process	Benchmark valuation to establish reserve prices	Stakeholders should have priority
Free of Charge Transfer	Business plan	Minimal, may be some legal and financial restructuring	Benefits of transfer may need to be "sold" to stakeholders	Market price to be established to determine benefit being transferred (if any)	Significant work identifying stakeholders and determining criteria required.
Transfer to Stakeholders	Business plan	Minimal, may be some legal and financial restructuring	Benefits of transfer may need to be "sold" to stakeholders	Market price to be established to determine benefit being transferred (if any)	Significant work identifying stakeholders required
Innovative Financing Mechanism	Business plan	Minimal, but may require some substantial legal and organizational restructuring	International marketing required with assistance of international advisers	Value of transfer to be established	Financial viability and management track record

5.36 *Bid Evaluation Procedures*. In the sale process, whatever method is applied bid evaluation procedures must be established in advance. The procedures must include: (a) clear and simple criteria; (b) establishment of realistic and appropriate reserves; (c) a reasonable timetable; (d) transparency; and (e) independence. One of the major criticisms of past privatizations has been collusion with certain well placed business entities. Matters such as financial standing and management track record should be dealt with at the pre-qualification stage.

5.37 *Sale of Surplus Assets*. Surplus assets that are not required for the business should be separately identified for valuation purposes. These assets are mainly land. As the mills were set up decades ago there is a lot of excess land which fetch good prices and for which there is strong demand. This approach will help deal with one of the major concerns of the privatization process to date, where the businesses are closed down and the assets are sold off.

5.38 *Marketing*. Whatever mechanism is adopted, the marketing should be well publicized. In one case some former owners of a mill claimed they were unaware the business was for sale. In addition to formal notice mechanisms, i.e., public notices, a widespread publicity campaign should be undertaken. The publicity should target Bangladesh's middle class; the armed forces, police, university and college teachers and civil servants to encourage mobilization of their financial resources.

5.39 Marketing is central to the success of the GOB's privatization program. Marketing issues that must be addressed include (a) promoting Bangladesh's reform program both locally and internationally; and (b) advertising the specific privatization transactions. The present approach to privatization has largely ignored these needs. A low profile, which may have some initial attraction, may increase the opposition to privatization. For example, a widely publicized and advertized program can never attract the criticism that the privatization was for a favored clique. The marketing programs required are: (a) an investor relations program which is targeted towards key investor groups in both Bangladesh and offshore and pursues not only the theme of economic reform but outlines the privatization program itself; (b) a stakeholder relations program which deals with the specific concerns such groups as labor and consumers may have, and; (c) a transaction level advertising program that addresses the market segments which are most likely to purchase the SOEs.

5.40 *Public Relations*. The importance of an effective public relations program cannot be overemphasized. Informed or self interested opposition to privatization is the biggest single reason why privatizations fail. Often governments bring upon themselves this opposition in the way they manage the privatization process. Opponents of privatization may often have substance to their objections. They may have: (a) legitimate regulatory concerns; (b) identified deficiencies in government's past privatization programs; (c) feel one sector's advantage is another sector's disadvantage; (d) have concerns that social and environmental consequences of privatization have not been fully evaluated; and (e) may have entrenched philosophical concerns. A public relations program backed up by a well conceived transparent and credible privatization approach can deal with many of these objections. Benefits must be sold and promoted, costs and objections must be addressed. The news media deserve particular attention. A thorough and targeted briefing program should be promoted with them so they understand the proposed privatization program.

5.41 GOB needs international expertise to support and advise on its overall marketing program. There is little capability to provide this support from within Bangladesh. This is an area which should form part of the proposed technical assistance.

Transaction Financing Process

5.42 *Payment Terms*. The question arises in privatizations whether buyers should organize their own financing or whether government should provide some assistance. This will depend on

two factors: (a) the availability of finance; and (b) the capacity of likely buyers to arrange finance. In the past privatizations the GOB has provided financing, particularly in the initial round of privatizations where 20% down payment was required and the balance spread over 10 years. The rationale to this was that there were deficiencies in both the above mentioned areas. Since then Bangladesh's capital markets have developed and a wealthy class has emerged. So the necessity for payment terms is not as great. As a general rule the enterprises should be sold for cash. This may mean the GOB accepts a lower price. However, if government's intentions are to widen the pool of buyers, payment terms may have to be considered. These terms must have no element of concessionality, they must be supported by a significant equity contribution from the buyer, must be on a fully commercial basis and be set at a rate higher than the prime commercial rate. Furthermore, these loans to buyers must be strictly enforced, default on any payment should incur penalty interest without exception and sustained default should lead to debt enforcement procedures being applied. The loans should be managed independently of GOB, ideally through a commercial bank. There have been problems in the past with these "payment term" loans where widespread default has occurred. In essence what happened was that purchasers used the credit to invest elsewhere where returns were higher and in many cases left the privatized entities to be run down to worthless shells. Where GOB wishes to give purchasers some assistance, for policy reasons such as to encourage emerging entrepreneurs, such assistance must be kept separate and distinct. Current arrangements for privatization of textile mills offer deferred payment for a five-year period of 75% purchase price (subject to a bank-guarantee) at a concessional interest rate of 9.5%

5.43 *Trust Mechanisms*. Trust mechanisms can be used in two ways: (a) to provide an opportunity for disadvantaged groups and stakeholders to invest; and (b) to develop new independent pools or capital. Privatization trusts have been used in both developed and developing countries, for instance, the Asset Privatization Trust in Philippines. Such trust mechanisms may link with funds administered by international agencies. One formulation that has worked well is where the privatization trust takes a minority shareholding, say, 25 to 40% and the majority is held by a foreign investor. Privatization trusts have the particular advantage of dealing very effectively with wealth concentration concerns. More on this later.

5.44 *Proceeds Enhancement Mechanisms*. In undertaking a privatization program the GOB should give consideration to mechanisms whereby it can increase the proceeds from a transaction. These will include: (a) a comprehensive public relations program; (b) the approach to sequencing; (c) the attitude to foreign investment; and (d) the general enabling environment. One particular area the GOB could look into is the use of tax losses. By allowing tax loss benefits to carry forward to new owner, GOB may be able to avoid having to come up with additional funding for financial or operational restructuring.

5.45 *Sequencing*. Sequencing can enhance proceeds by: (a) helping the orderly development of capital markets; (b) stimulating interest with buyers; and (c) setting standards for the remaining public enterprises. For example, the telephone company (BTTB) could not be privatized by public float on the local stock exchange. It is too large. Yet in time the stock exchange my develop through a succession of smaller successful privatizations to the point where it can absorb at least a portion of the telephone company. Successful privatizations which produce good returns for investors can also raise market interest. Improved performance of privatized

enterprises when compared with their state owned counterparts can encourage them to operate more commercially.

Social Considerations in financing Privatization

5.46 Analysis of the enabling environment (Chapter 2), consideration of the criticisms of past privatization (Chapter 1) and evaluation of social concerns (Chapter 3) shows any successful privatization program in Bangladesh must; (a) avoid leading to any further significant concentrations of wealth; (b) encourage private sector business disciplines; (c) be seen to positively help Bangladesh's economic development; (d) encourage direct foreign investment; and (e) most importantly be popular i.e., be acknowledged as benefitting the community at large. The way in which privatization has been carried out in the past has by and large not addressed these issues. Whilst there is no doubt privatization has helped Bangladesh's economic development the benefits have tended to be concentrated in one small segment of the community.

5.47 To avoid further concentrations of wealth privatization must be opened up to segments of the community that have not to date participated in the privatization program in a meaningful way. These segments can be classified as follows: (a) middle class; (b) formal labor sector; (c) informal sector; (d) and emerging entrepreneurs. Middle class participation calls for mechanisms that can mobilize savings, such as an efficient stock market and working investment fund mechanisms combined with attractive well prepared privatization opportunities. The utilities sector in particular provides opportunities that are well suited to this kind of investor. The formal labor sector will tend to display interest either as a minority interest or in some cases controlling interest in the businesses they are currently employed in. The major issue that needs to be resolved in terms of a controlling interest is how management is organized. Minority interests are appropriate only where the business is listed on the stock exchange. The informal sector has no capital and no real capability to hold stocks. The only way in which this sector could participate in privatization is through a trust type mechanism, where for example a certain portion of privatized entities is reserved, say, to a Poverty Alleviation Trust. The emerging entrepreneur class is a small cross section of the community with innate commercial instincts. Some part of the class is professionally trained but is generally characterized by a lack of capital. Special concessional credit programs run by the development banks, supported by training and other professional assistance, is one possible way of helping these entrepreneurs. A culture of encouraging entrepreneurs is required, particularly in the education area. To date this has not been given adequate emphasis in the education curriculum in Bangladesh. An institute for entrepreneurship development as operating for some 30 years in India would be helpful in this regards.

5.48 *Poverty Alleviation Trust*. GOB may consider a Poverty Alleviation Trust as a mechanism for allowing the informal sector to participate in the privatization in a transparent and unambiguous manner. This could also help win broader support for the Government's privatization program. The mechanisms have been used in overseas privatizations when government has decided to target benefits in whole or in part from privatization to a particular group and individual transfers are not feasible. In Bangladesh where the informal sector is characterized by very low living standards and illiteracy, direct transfers as applied in the former command economies of Eastern Europe are not feasible. The elements of a Trust would be; (a) independence from Government - the trustees must

be beyond reproach, be sympathetic to the needs of the informal sector and have sound business skills; (b) the objectives of the trust should be clearly set out - they should include poverty alleviation in areas such as health, education and population control; (c) the trustees should be required to coordinate their programs with the GOB; and to link up with other poverty alleviation initiatives, including the Palli Karma Shahayak Foundation; (d) the day to day management of the trust's assets should be contracted out to an independent fund manager; (e) the trustees should be free to dispose of any shareholdings held in SOEs.

5.49 Bangladesh has some existing experience of these special purpose trusts. The Freedom Fighters Welfare Trust is an example. The Trust which is government-managed owns some of Bangladesh's most attractive consumer product companies. Because these companies are not managed commercially they are not profitable. The important lesson is that any trust mechanism must be independent of government, for otherwise it will have little chance of success. It also raises the question whether or not Trusts should receive proceeds from privatization or take direct shareholdings in privatized entities. This depends largely on the circumstances of each occasion.

5.50 Encouraging private sector business disciplines is essential to the privatization program. Accordingly it would be desirable to disqualify any individual, family member or associated entity from bidding for or holding any stock in newly privatized entities who have no agreed program of payment of amounts outstanding on earlier privatization loans. This failure to repay is a major source of criticism of past privatizations. Any new credit granted as a result of the privatization must be handled in a fully commercial manner. To this end penalties for non-repayment must be strengthened.

5.51 The Jamaican program illustrated in Box 3 provides an interesting example of a privatization program in another developing country.

Recommendations

5.52 (a) New private sources of capital should be developed with worker and grower cooperatives.

(b) GOB should relax restrictions currently placed on pension funds and allow them to invest in the stock exchange.

(c) Investigate the possibility of establishing a privatization fund which can issue bearer bonds.

(d) Make it clear no implicit guarantees exist in respect of SOEs.

(e) The GOB should develop a wider range of private treaty sales methods to include auctions and brokered transactions.

(f) Credit provided by GOB for financing privatization must be on a fully commercial basis.

(g) The privatization must be opened up to segments of the community who have not previously participated in a meaningful way, e.g., middle class, formal labor sector, informal sector and emerging entrepreneurs.

(h) An institute for entrepreneurial development should be established.

Box 3: A Diversified Privatization Program in Jamaica

Jamaica has been successful in carrying out a substantial privatization program, in proportional terms as large as that of the U.K. In 1982, at its peak, the public sector comprised 200 SOEs spanning many sectors and accounting for 21% of GDP. Initially (1981-86) the privatization program advanced slowly because of lack of experience and absence of a clear policy statement. Transfer of assets was minimal and privatization was primarily achieved through management contracts, leasing or contracting out services. The new Government soon after taking office in 1989 opted for an accelerated privatization program. This initiative stemmed from an urgent need to improve Government of Jamaica (GOJ) fiscal performance, increase productive efficiency, optimize the use of GOJ's limited management resources, widen the basis of ownership in the economy and to create opportunities to access foreign capital, technologies and markets

GOJ was to withdraw over the medium-term from all commercially-oriented activities, and seek private sector participation in utilities and other infrastructure, through divestiture and new investments sponsored by the private sector. GOJ participation would continue beyond the next few years in transportation (roads, ports, airports), where a privatization initiative is also beginning, and bauxite/alumina where GOJ maintains joint ventures with foreign multinationals. No major SOE restructuring is envisaged, though GOJ aims at improving the monitoring and auditing of the remaining SOEs to rationalize budgetary outlays and transfers in the medium-term. By mid-1991 divestiture had covered SOEs in finance, manufacturing, utilities, telecommunications, tourism and agriculture and cumulative divestment proceeds from 1987 - 91 were equivalent to about 10% of GDP. All basic modes of privatization, i.e. sale of assets, liquidation, outright divestment and contracting out, have been employed. On regulation, GOJ has adopted the principle that all appropriate regulatory issues will be dealt with prior to or simultaneously with privatization to build investor confidence and ensure long-term efficiency.

The new divestiture program and the National Investment Bank of Jamaica (NIBJ), the institution responsible for coordination and implementation of the program, were placed under the responsibility of the Office of the Prime Minister, with the Prime Minister himself having responsibility for the program. There was some division of responsibilities between the Cabinet and NIBJ, and this was designed to ensure flexibility and transparency in the decision-making process. More recently, the process has been modified to ensure a more explicit "consensus-building" and participation among institutions involved. More decentralized supporting mechanisms (e.g. Special Divestment Committees) have been brought into the framework to provide the right package of expertise to tackle the more troublesome or sensitive divestments as in Air Jamaica, Power Company, Petroleum Refinery and the sugar sub-sector.

The diversity and scale of the Jamaican program was made possible by firm political commitments. The record of privatization in Jamaica shows further that the program has had to be built around the low absorptive capacity of the domestic private sector with a two-fold approach: small sales direct to domestic entrepreneurs, and larger sales involving either public share issues (with positive impact on the Jamaican Stock Exchange) or foreign participation.

CHAPTER 6

PUBLIC-PRIVATE ECONOMIC PARTNERSHIPS: ALTERNATIVE APPROACHES FOR INFRASTRUCTURE INVESTMENT

Introduction

6.1 Privatization of state-owned productive facilities--the first two prongs of the strategy advanced in this report--alone will not achieve its expected objectives such as improvements in efficiency and reduction of the need for continuing state subsidies. These desired results will not occur unless GOB undertakes a deliberate policy of bringing the private sector to assume a greater role in the investment, operation and maintenance of basic economic infrastructure--the third prong of the privatization strategy. This objective is particularly important as the utility and infrastructure sector is estimated to represent some 80% of the value of all SOEs. There are various ways that this third prong program can be effected, however agreement to undertake this is time sensitive to the entire privatization program.[1/] Unless prompt assurance is given to all prospective private investors that measures are being taken to assure that electricity, gas, telecommunications, and transport services are going to be provided reliably throughout the country, the effort to privatize the large portfolio of state enterprises will not result in significant economic gains or improvements in welfare. Although the GOB has had no shortage of concessional capital available to it for infrastructure projects, the problem has been its administrative incapacity to utilize this capital. Improvements in the performance and service delivery of basic infrastructure is essential to the entire privatization process. Implementation of the various modalities and alternative techniques for private investment in infrastructure described in this chapter need to be incorporated into the authority and mandate of the Privatization Board.

6.2 At the present time in Bangladesh, virtually all publicly supplied services that businesses need such as electric power or natural gas fuel, voice and data telecommunications, transport including inland marine, rail transport, their associated facilities such as roads and highways, ports and harbors have sub-optimal performance. Virtually all of the infrastructure including transport, telecommunications, and power has suffered from under investment, inadequate attention paid to maintenance, and poor operational management. As a result the penetration of infrastructure services (ratio of persons served to total population) remains among the lowest of all countries in the world.

6.3 Institutional weaknesses are notable throughout the infrastructure sector with transport, telecommunications and energy sectors the most affected. Financial practices of most of the infrastructure agencies evidenced by poor collection and accountability controls, accumulation of arrears and ageing accounts receivable, illustrate the problem. In many cases, political unwillingness to set tariff levels at self-financing levels, obliges government to provide direct budgetary subsidies or loans from government financial agencies, rarely repaid on schedule. There are also widespread corrupt practices involving customer evasion of legitimate charges, and frequent collusion between utility customers and meter readers and other billing and collection personnel.

1/ *As noted earlier, at the Bangladesh Aid Group Meeting of April 1993, the understanding reached for FY94 is that GOB would sign contracts for initial private investments in the electricity, gas and telecommunications sector.*

6.4 In many of the infrastructure related ministries and agencies, bidding and award procedures have taken place in a manner resulting in a lack of public confidence. The failure to adopt at the initial stages transparent tendering and management processes has led to the subsequent repudiation of contracts notably in the case of Petrobangla and the BTTB.

Public-Private Partnerships

6.5 Significant gains might be made by bringing in aggressive private managers and allowing the enterprise to operate like a private firm, even if ownership of assets is not transferred. Management contracts, leases (or affermage), and concession arrangements (BOO/BOT) are a step in the right direction and can facilitate later sale, particularly in Bangladesh where: (a) capital markets and the domestic private sectors are weak; (b) an unfavorable enabling environment makes private investors reluctant to take on ownership of large assets in need of modernization (railways, water, power); and/or (c) where capacity to regulate is poor or problematic.

6.6 *Management Contracts*. In management contracts, government pays a private company a fee for managing the enterprises. Management contracts are usually less politically contentious than sales. They avoid the risk of asset concentration, and can enhance productivity. However, they have problems. Typically, contractors do not assume risk; operating losses must be borne by the owner (the state) even though it has relinquished day-to-day control of the operation. Many standard management contracts are flat fee-for-service arrangements, payable regardless of profits, which provide little incentive to improve efficiency. Further, management contracts are time-consuming to develop and can be expensive to implement. Unless proper legal safeguards are developed, and enforced by monitoring, there is a risk that the contractor may run down the assets. Another drawback is that few management contractors provide adequate training for local counterparts. These risks can be reduced with properly drawn-up contracts, but that requires strengthening government's capacity to negotiate, monitor and enforce contractual obligations. They also have an exit implication of what happens at the end of the contract.

6.7 One interesting example of contracting out which has particular relevance to Bangladesh and wider application than infrastructure was a project in Senegal which initially focussed on employment generation, skill training, and improvement of maintenance and construction through small-scale contracting out at the urban and municipality level. It was also intended to upgrade the capacity of local contracting firms and to overcome obstacles which made these firms reluctant to bid on government contracts.

6.8 In Senegal, the Bank financed a "Public Works and Employment Project." Under that project, an organization was created in 1989 called "Agence d"Execution des Travous d"Interet Public contre le Sous-Emploi (AGETIP)." AGETIP substitutes for the executing ministry or agency and has full authority to select contractors, award contracts, supervise construction, acknowledge and inspect delivery, and pay contractors. An evaluation of its activities shows that its "sanitary and corruption-free procedures" have allowed it to complete its portfolio of projects largely on schedule with a cost overrun of only 1.2 percent of its portfolio (compared to public procurement where cost overruns amount to 15% of original estimates). On unit prices, AGETIP routinely obtains prices 5 to 40% lower than those obtained by the administration through official bidding.

6.9 A review of project disbursement profiles indicates that AGETIP has an absorptive capacity much greater than the average IDA-financed project. Other governments in the region are considering adoption of this form of private management of public contracting. The organizational design has been adopted in Niger, Burkina Faso, Benin, Mali and Mauritania. In these countries, the traditional role where government produces public services is being replaced by one where government provides the services but lets the private sector deliver them. AGETIP has demonstrated how managerial autonomy and private sector orientation for example in the bidding and procurement procedures reduced to an average of two months what government could perform in its best case no less than six months. This type of innovative approach may be one way of resolving Bangladesh's pervasive administrative problems.

6.10 In Bangladesh, the power sector provides an illustration of the possibilities for performance management contracts in improving the operation of existing power plants. An examination of plant operations over the last few years reveals the considerable benefits that can be gained if plant utilization and efficiencies can be improved to figures close to internationally acceptable levels. Instead of undertaking rehabilitation on a supply and instal basis, performance contracts covering plant rehabilitation as well as management of operations for a limited period could be pursued. The bidders can also be encouraged to introduce additional efficiency and operational enhancement techniques and equipment in return for a share of the profits gained from improved operations. This strategy is particularly advantageous as considerable new technology has now been developed in this area. The efficiency, capacity utilization and plant life of a thermal station is greatly dependent on the maintenance practices and operational methods used, and a private management contractor can introduce a whole new culture of plant operational practice. The existing power station personnel can be assigned to the maintenance contractor and they too could benefit by better training and possibly increased remuneration.

6.11 Likewise in the gas sector, a management contract with an experienced foreign gas operating company could facilitate improvement in the institutional capability of Petrobangla. It would provide opportunities to integrate know-how transfer and on-the-job training and expose Petrobangla staff to an experienced operating organization.

6.12 *Leases*. Leases overcome some of the possible drawbacks to management contracts. The private party, which pays the government a fee to use the assets, assumes the commercial risk of operation and maintenance, and thus has greater incentive (and obligations) to reduce costs and maintain the long-term value of the assets. And fees are usually linked to performance and revenues. Lease arrangements have been widely used in Africa, particularly in sectors where it is difficult to attract private investors: examples include industries in Togo (steel, oil refinery), water supply in Guinea and Cote d'Ivoire, electricity in Cote d'Ivoire, road transport in Niger, port management in Nigeria, and mining operations in Guinea. In each case, the contracted firm is a joint foreign/local enterprise, with the foreign partner bringing in essential technical and managerial expertise. Leases usually have built-in incentives to reduce costs; in Cote d'Ivore, for example, the leased water company was motivated to reduce the number of high-paid expatriate staff from 40 to 12 to minimize costs. Technical efficiency, new connections, and billing and collection of receivables also improved dramatically. One development of the lease approach is the French concession approach.

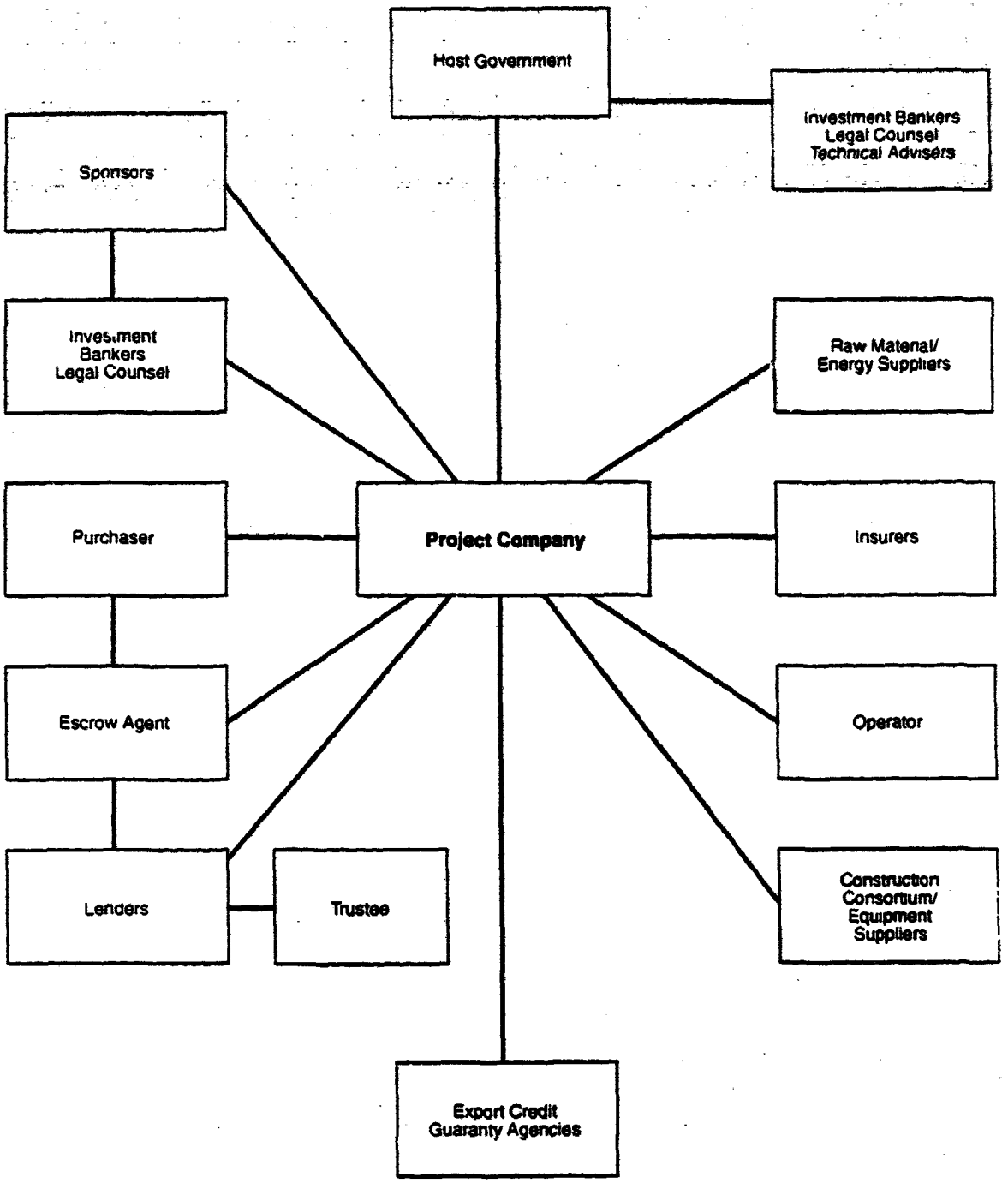
6.13 *Concessions*. Concessions go further; the holder has responsibility for capital expenditures and investments (unlike a lessee). In general, concessions are more desirable, but more complex to consummate than leases. This is so because private financing (or willingness) tends to be weak in comparison to the size of the investment, particularly in sectors or countries where the political and economic risks are seen to be high. In such instances, the government might have to play a participating role with the private investor sharing both risk and potential reward. External agencies could participate to syndicate the financial package. Concessions have been successfully used in the recent privatization of telecommunications and railways in Argentina. Venezuela plans to grant private firms concessions to operate and finance investments in ports and water supply. In developing countries private financing of infrastructure investment has grown in recent years from an almost zero base to between five and ten percent of annual infrastructure investment in 1993, and with the existing pipeline of projects, this share could double in the next ten years.

6.14 Concession arrangements in Bangladesh may be difficult to establish. Today in the Asia region alone there are too many "viable" infrastructure projects ($2.5 trillion in projects in the next decade) chasing too little money. What this means is that project sponsors and, more importantly, financial institutions, are in the enviable position to "pick and choose" the projects they want to invest in. Countries that do not have a track record in "private investment in infrastructure" or who do not yet have clear policy guidelines and/or incentive-based investment policy directives will be placed at an inherent disadvantage vis a vis countries competing to attract similar investment in infrastructure. Bangladesh is currently in this disadvantaged position. Only through government commitment, strong political support, and a long-term strategic plan will the opportunities develop for this type of investment.

6.15 In some sectors, gas and telecommunications for example, the rewards both direct and indirect are such that potential investors exist for concession arrangements. However in other sectors these investors will not be as forthcoming. A sensible strategy for Bangladesh may well be to start with management contracts or leasing arrangements and then move later to concessional arrangements when investor confidence and interest has been developed.

6.16 *BOO/BOT*. BOO/BOT type arrangements illustrate a sound process for evaluating opportunities and institutional arrangements for managing them. BOO/BOT or Build Operate Own/Build Operate Transfer is one type of concessional arrangement that has come into prominence in recent times. The BOO/BOT type arrangement has particular relevance to Bangladesh. Under a BOO or BOT approach, one or more sponsors from the private sector are authorized to create a "project company" to build a project. The project company, usually consisting of a consortium of companies (typically engineering, construction, and supply firms) will raise the bulk of the financing required for the project from commercial lenders, often supported by export credit guarantee agencies, and bilateral and multilateral financial institutions. The project company will own and operate the facility. Under the BOT, a transfer will occur after a period of time (called the concession period) to the government or possibly a local company. This period of time (a range normally between 10 and 35 years) must be sufficient for the amortization of project financing and to realize a reasonable profit from the project. In a BOO approach there is no transfer and the project company retains ownership indefinitely. In both BOO and BOT, the government usually signs certain concession/incentive agreements as well as performance/delivery agreements with the project company to ensure high quality of project service and delivery. Chart 6.1 depicts a typical

Chart 6.1: BOO/BOT Project Structure



Adopted from " The Build, Operate and Transfer Approach to Infrastructure Projects in Developing Countries " by Scott Custer and Mark Augenbleck.

BOO/BOT project structure and all the individuals/institutions involved in implementing a BOO/BOT project. The importance of understanding the complex nature of a BOO/BOT transaction is critical for successful implementation.

6.17 There are some important lessons that can be learnt from a consideration of other countries' experiences (Annex 3). These lessons include: (a) the central BOO/BOT implementing agency must have adequate authority; (b) initially, at least, BOO/BOT transactions should be limited to modest sized and relatively simple projects; (c) government will need to protect the public interest through exercise of its inherent regulatory function; (d) BOO/BOT models should be flexible, fast responding and highly professional; (e) BOO/BOT models can fit well with the application of other privatization techniques.

6.18 As BOO/BOT places heavy reliance on the foreign investor the enabling environment must meet certain minimum standards; these standards are (a) policy and institutional environment which establishes procedures that support BOO/BOT "partnerships" between the public and private sector. The importance of institutionalizing BOO/BOT policies and procedures cannot be overemphasized. This adds authority and transparency to the process; (b) an efficient business operating environment. As most BOO/BOT projects last more than ten years it is important to convey to the potential investor that the investment climate is solid not only today, but will continue for the next thirty years; (c) demand for services. The question arises as to what the Bangladesh consumer can afford and is willing to pay for; (d) legal framework. A legal framework both at the general business and specific entity level that allows for BOO/BOT to take place; (e) financial capacity, the ability of local and international financiers to provide financial support to the BOO/BOT.

6.19 A limitation of BOO/BOT programs that must be kept in mind is that private investors will become interested in undertaking such projects only to the extent of the project's capacity to generate a revenue stream that can be captured, and which can then be applied to the amortization of the capital investment funding. This would typically include such projects as bridges, tunnels, power plants, ports, airports, trunk highways and telephone systems. Later, water treatment and waste water treatment plants may be added. For these reasons private investors will be seeking guarantees and regulatory protection which attempt to minimize their risk.

6.20 Another important feature of BOO/BOT is that it uses the creditworthiness, management capacity, corporate track record, and "financial stamina" of the private investor company (either with or without a local joint venture partner); and often includes participation of the construction contractor. What is crucial is that the private investor is the borrower, not the host country ministry or statutory agency of the government. There is therefore a need to prequalify bidders.

6.21 Since the project is financed largely through non- or limited recourse credits, the lending institution needs to be assured that the owner/investor has been awarded a monopoly or an exclusive franchise or concession agreement to own and operate the facility for a time period at least long enough to permit amortization of the construction loan. Included in this franchise or concession must be the right of the private investor to capture all or most of the revenue in the form of tolls or tariff paid by the users, and -if necessary- a central bank commitment assuring full convertibility

into dollars or other hard currency to permit servicing of the loan; foreign exchange costs of routine operation and maintenance; and the capacity of making periodic remittances of dividends to shareholders from profits.

6.22 One appeal of this arrangement to a developing country or one in transition to a market system, especially one already heavily in debt to commercial banks or international donor agencies, is that the country does not have to assume any additional sovereign debt to get the project built. Another advantage to the country in addition to this avoided cost, is the greater likelihood - especially if the concession agreement is awarded on an open competitive basis - that the investor will utilize the latest "state of the art" technology. Projects will be selected for implementation which meet clear economic and developmental needs, diminishing the possibility of "white elephants". With performance parameters and cost containment built in to the selection and award process, the public is more likely to receive reliable services of high quality.

6.23 The advantage to the commercial banks and donor lending institutions that put together financial packages for BOO/BOT, is that project-specific "financial engineering" such as creation of special project funds, can be employed. The likelihood of repayment is bound up in the intrinsic technical and financial feasibility of the project itself. The assumption of repayments responsibility devolves largely to individual corporations or consortia of reputable and prosperous companies. The advantage to the investors in such companies is that the concession agreement assures them a protected market and revenue stream, and they will be in a better position to protect themselves from the non-performance or possible corruption of host government officials.

6.24 One way of characterizing BOO/BOT is that it re-shifts the costs and benefits of providing socially necessary public services which the government has the responsibility to assure, but for which it may lack the financial, managerial, or administrative capacity to deliver. Under BOO/BOT, there could be sharing of the revenue with the government, or alternatively, the government may benefit from collection of corporate taxes or fees. Labor complement is likely to be in numbers and skill levels, suitable to the performance needs of the facility, rather than the political requirements of the administration.

6.25 GOB's objective should be to develop a suitable number of economically important BOO/BOT project candidates. It is recommended to first identify projects that have a "demonstration" potential which could enhance the success of other private sector partnership arrangements. Annex 3 details the steps in developing this strategy as well as the lessons to be learned from the experiences of other countries. A few cases of successful BOO/BOT projects may be cited here. In the Philippines a small turbine power plant was built quickly under BOT arrangements in Navotas, a suburb of Manila. This has made a welcome if modest contribution to the power shortages in the Metropolitan Manila area. Malaysia started with assured revenue earners such as the North South Highway project, and once that was seen to be successful, BOO/BOT was able to branch out into less obvious areas such as the Ipoh Water Supply. Although the Sri Lanka BOO/BOT program was not initiated until early 1993, a number of major projects are already under negotiation or being prepared for tender.

6.26 An effective marketing strategy is required, otherwise local and foreign investors will seek opportunities elsewhere. As Bangladesh will be in fierce competition with other Asian countries

(notably India, Sri Lanka, Malaysia, China, the Philippines and Thailand) for attracting similar private sector investment in economic infrastructure, the need for a solid marketing strategy is even more critical. The objective of this activity for the GOB is to generate the highest number of competitive bids from the broadest (local and foreign) investor/operator community as possible.

Initial Opportunities

6.27 Initial BOO/BOT and contracting out opportunities have been identified in four areas; (a) Petrobangla; (b) internal transport sector, where contracting out and leasing prospects exist; (c) telecommunications, where BOO/BOT could help develop infrastructure, and (d) power, where examples exist of an unsolicited proposal and of the potential for private sector operations in power distribution.

6.28 *Petrobangla*. Petrobangla is engaged in gas exploration, production and distribution. The most pressing problems for Petrobangla are caused by the delay in construction of the North/South Pipeline System (NSPS), and the lack of progress in implementing the "A-B" pipeline (Ashunganj/Bakhrabad). Absence of these two vital interconnections deny access to proven reserves and stress the existing gas fields. Private sector opportunities exist in development contracts and in drilling and exploration contracts. Negotiations are ongoing with several multinationals in this area. A liquified petroleum gas bottling plant at Bogra could provide another private sector partnership opportunity.

6.29 Significant progress is now taking place in reform and restructuring of the gas sector, particularly with the June, 1993 GOB decision permitting the negotiation of agreements with international oil companies more in conformity with traditional international practice, most notably, granting of tax exemptions, and the linking of gas producer prices to the prevailing international fuel oil prices. Absence of these provisions prior to the June decision had discouraged serious negotiations with most reputable oil companies. Other progress within the policy reform framework includes opening up of exploration blocks to private bidding that had previously been reserved for Petrobangla; approval of a Petroleum Policy in July 1993; agreement to establish a separate, more commercially oriented Gas Transmission Company; and disengagement of the Petroleum Exploration company (BAPEX) from exploration drilling, which had proven costly and unavailing. A round-table conference to promote international oil company involvement and discuss incentives was held in Houston in September 1993 with the objective of entering into international petroleum agreements; one agreement has already been approved. Other management improvement measures are also being considered and implemented. Most significantly, the adoption of gas pricing principles linking the producer price of gas to international fuel oil prices, and establishing financial performance targets for the gas operating companies, all suggest steps in moving the gas sector towards a more private business, cost-effective orientation.

6.30 *Internal Transport Sector*. The Bank and ADB have thoroughly studied the transport sector, and in addition to the findings of these studies, there is compelling evidence that both Roads and Highways and the Bangladesh Inland Water Transport Corporation (BIWTC) could provide suitable privatization prospects through the immediate contracting out of existing operation and maintenance functions, and by identification of suitable BOO/BOT public private partnership investment opportunities.

"take or pay" provisions; (b) a fuel supply agreement with Petrobangla, to assure delivery of natural gas to the finally established plant site; and (c) an implementation plan showing arrangements for construction and operation. There would also need to be negotiated a number of separate side agreements relating to the financial and insurance aspects, that would be incorporated into supplemental contracts comprising the entire security package for the project. Government would also need to be able to benchmark any such proposal with the market place. Therefore it would not be appropriate to proceed with an unsolicited proposal until there is an existing base of internationally tendered projects in place. A proposal that is attractive in terms of the benchmarks established by a competitive tendering process would warrant serious consideration.

6.41 However, a much more efficient and transparent option would be, to call for "requests for proposals" (RFPs) using international tender procedures. For this process to be put in place the Power Development Board's capability in handling such a process should be sufficiently strengthened. With respect to unsolicited proposals too, the Bangladeshi institutional framework needs to be considerably strengthened by developing regulatory bodies with ability to negotiate power supply prices and terms of performance for the supplier.

6.42 Based upon on-going dialogue with the Bank, GOB has agreed to undertake basic reforms comprised of three major components, all reflecting significant movement towards a much larger role for the private sector. The two privatization components of reform program include: (a) restructuring and corporatization of the Bangladesh Power Development Board/Dhaka Electric Supply Authority, separating into autonomous commercial entities for generation, transmission and distribution; and (b) establishing a clearly articulated policy framework to explicitly encourage private participation in power development. The third major component of the power reform strategy in Bangladesh is (c) to create an appropriate regulatory framework that will permit genuine decentralization of functions in the power sector, with mixed ownership, and government retaining the regulatory and oversight function. In carrying through these reforms, GOB could demonstrate its commitment to transform the present inefficient government-dominated arrangement to a market-driven, cost-effective, competitive system which could rapidly demonstrate the performance potential of the private sector to deliver more reliable and less costly power service to all of the users. Market incentives could be introduced throughout the sector through these new arrangements, so that Bangladesh will be able to profit from newer technologies in generation and transmission, and the disincentives and abuses which now characterize distribution, notably in meter reading, customer connections and dis-connections, billing and collection could be avoided. The power sector thus holds out the prospect of becoming a leading element of the national privatization and structural adjustment program.

6.43 A good example of the potential for private sector operations in the field of power distribution can be seen by comparing the rural electricity cooperatives called "Palli Bidyut Samities" (PBSs) with the Bangladesh Power Development Board (BPDB) and the recently introduced Dhaka Electricity Supply Authority (DESA)--the latter two being operated as extensions of the government bureaucracy. The PBSs though receiving organizational and management support from the Rural Electricity Board (REB), have developed healthy private sector based operating practices including the ability to employ and dismiss employees as well as a staff bonus and penalty scheme based on a performance monitoring system. The malaise of poor operational performance of the state institutions--high system losses, poor revenue collections, absence of accountability and staff

indiscipline--are a marked contrast to the performance of the PBSs. During the last financial year the PBSs recorded an aggregate system loss of 15.6% in comparison with about 34% for BPDB and DESA combined operations. For the same period the revenue collections of the PBSs was 99.9% of billed amounts in comparison with 86% for BPDB and DESA combined. The REB/PBSs system which commenced in the late seventies as a rural electrification program have, with the assistance of a number of external donors including IDA (three Credits), now grown to cover the larger portion of the electrified land area of Bangladesh and is comparable to the other state organizations in the volume of consumers served. Clearly this cooperative based organization structure with suitable modifications will have an important part to play in any restructuring/privatization exercise of the country's distribution sector.

Institutional Arrangements

6.44 The institutional arrangements for managing BOO/BOT or other private sector partnership projects are as important as the selection and initial implementation processes discussed above. GOB's management of the concession will involve; (a) ensuring appropriate regulatory disciplines are maintained; (b) monitoring circumstances to avoid substantial windfall profits arising to the concessionaire or substantial losses; (c) reviewing the terms of the concession to ensure the concessionaire maintains essential contractual obligations; (d) negotiating the inevitable amendments that will arise in a concession; and (e) managing the ownership change at the end of the concession period.

6.45 BOO/BOT projects take place over a long period of time during which circumstances could change very much in the favor of the concessionaire. The concessionaires will inevitably be highly sophisticated very astute and will be at all times seeking to maximize their returns from investment. The GOB must ensure they have the capacity to negotiate and deal with these concessionaires before attempting any substantive BOO/BOT projects.

6.46 BOO/BOT arrangements should allow for transparent review and amendment processes. Upper and lower limit returns should be agreed in advance. A payback of eighteen months which one electrical operator received on a BOO/BOT in another developing country should not and must not be possible. By the same token the GOB cannot let the BOO/BOT operator suffer losses which the GOB could have controlled. It will further harm the GOB's international reputation. Losses that arise for example through technical malfunction of equipment or development of a new cost efficient substitute should not be adjusted for. Losses, however that arise because GOB was not able to control the law and order situation and as a result of which demand was suppressed should be adjusted for.

6.47 BOO/BOT projects can place significant demands on GOB as they are invariably complex in practice. In managing BOO/BOT the GOB will need several kinds of expertise. It will need, (a) a financial monitoring and analytical capability; (b) technical and operational knowledge of each infrastructure sector; (c) regulatory analytical capability; and (d) contractual legal support. The Privatization Board in close liaison with the line ministries and agencies plus the Ministry of Finance are the appropriate coordinators of this expertise. They should maintain a financial monitoring and analytical capability. Technical and operational knowledge could be sourced from

specialist international consultancies who are familiar with latest developments and best practice. The regulatory reviews should take place in the relevant line ministries, e.g., energy and transport. Legal support can be sourced from within the Board and supplemented by outside expertise on a case by case basis, if the need arises.

6.48 The monitoring process should take place at several levels; (a) the financial performance should be monitored closely. Quarterly information should be received and matched against initial feasibilities. These feasibilities should be revised and return on investment recalculated; (b) a detailed technical and operational review should take place on an as needed basis. A toll bridge may only need to be reviewed every 10 years to check for maintenance and structural problems. On the other hand the fast moving telecommunications industry may warrant annual review; (c) the regulatory review should be ongoing and perhaps coordinated at the Board level every six months.

Conclusion

6.49 Bangladesh must place priority on achieving striking improvements in the performance of basic economic infrastructure as the crucial underpinning of the privatization effort. This means that GOB must effectively seek a greater private sector role in the provision of infrastructure through management contracts, leasing out arrangements, concession awards and the like. Bangladesh must embark cautiously but decisively on BOO/BOT. The weak enabling and regulatory environment, the poor track record to date in implementing successful BOO/BOT type transactions, the embryonic nature of administrative support arrangements and costs implicit in BOO/BOT projects all point to the need for a planned, coordinated approach. This is particularly so when the inherent complexities of BOO/BOT transactions and the demands for protection investors will seek from GOB, are considered. The approach recommended is first to adopt a high probability success demonstration project. In this regard a project in the telecommunication sector could make the most sense. Any unsolicited proposals should be internationally benchmarked. GOB should delegate responsibility for coordinating and managing BOO/BOT and other private sector partnership arrangements to the Privatization Board.

Recommendations

6.50 (a) GOB must build capability to manage BOO/BOT arrangements.

(b) A high probability success demonstration project should be adopted initially.

CHAPTER 7

SEQUENCING FOR DIVESTITURE

Introduction

7.1 The sequencing decision is an important one in the overall strategy of privatization in Bangladesh. Given the current policy pronouncements the government would like to encourage private participation in all areas of the economy except for a very limited reserved list. It is thus the implicit policy of the government to eventually privatize many of the current state-owned enterprises. The issue of sequencing thus becomes one of which SOEs should be the first ones to be privatized, or, more specifically, assuming a three to five year horizon, which firms should be targeted for privatization in the near term, which should be "prepared" for sale and which should be left alone for the time being.

7.2 This section of the report discusses various aspects of the sequencing decision. The sequencing of some of the other countries which have successfully privatized their SOEs are first reviewed. Next, the current implicit sequencing strategy of the Bangladesh government in terms of meeting the key objectives of the privatization program are evaluated. Third, alternative strategies are explored and the section concludes with broad guidelines for the sequencing decision.

International Experience

7.3 Most countries have begun their programs with the sale of small and medium-sized SOEs. The argument for starting with the smaller SOEs is generally based on the following considerations:

(a) Smaller enterprises usually operate in competitive markets, thus the case for government intervention is not present;

(b) The divestiture of smaller enterprises allows limited government monitoring and concentrates managerial resources for the improvement in performance of large firms (railways, utilities) where the pay-off to turn-around is high;

(c) Relatively smaller firms are easier to privatize for several reasons: they require little prior restructuring, employee and other liabilities are of a manageable magnitude, and they can be purchased by domestic entrepreneurs (allowing the postponement of the difficult issue of the foreigners' role) and;

(d) The political risks associated with the sale of smaller SOEs are viewed as being less. On the other hand, the main disadvantage of starting with the smaller SOEs is that in spite of selling a large number the impact on the government's budget is only feebly felt. The magnitude of the efficiency gains from private operation are also small. The original reasons for the privatization thus continue to remain, while, in some instances the window of political opportunity may be missed by focusing upon

the smaller units. Bangladesh's own past experience with privatization is a good example.

7.4 It makes good sense to focus on the privatization of the larger SOEs if the government is keen to attract foreign investment. Although the sale of large SOEs raises legitimate issues of the concentration of economic power, there are techniques of privatization that ensure that the shares are widely distributed. Based on the above considerations, some countries -- the notable example being Argentina -- have set accelerated time-tables for the sale of large firms.

Bangladesh Current Strategy

7.5 Fifty firms are candidates for privatization, including ten textile units. The profits and losses and total assets of each of these firms are set out in Table 7.1. Two points are noteworthy. First, the combined losses of all fifty[1/] firms chosen for privatization are only Tk 813 million (slightly more than US$20 million). This represents 10 percent of the loss of the SOE sector as a whole. Second, the combined assets of these firms are about 5 percent of total SOE assets. If one includes the two very large departmental SOEs (telecommunications and railways) in the denominator the proportion of assets targeted for divestiture becomes even smaller. Thus there will be only a modest impact on reducing the fiscal burden on government and on the size of the SOE sector resulting from these planned privatizations.

7.6 However, with the inclusion of jute privatization, there would be more significant progress towards the loss-reduction objective. One component of the jute sector project assisted by the World Bank is the eventual privatization of 20 out of the 29 firms. It is expected that 30 percent of the assets of the jute SOEs will be divested by the end of 1994, and the losses of the sector could be reduced by Tk. 747 million or another 9 percent of overall SOE losses excluding petroleum. Nevertheless, the combined assets of these jute sector firms are less than two percent of all SOE assets.

7.7 A final point to be made is that many of the firms targeted for privatization are in extremely poor financial condition, represent a bad original investment decision or have obsolete technology and can no longer be turned around; some of them need to be liquidated rather than privatized. Ideally the first SOEs to be privatized should help in the learning curve of the Privatization Board in setting good precedents, and so "the worst-first" approach should be resisted.

Analytical Framework for Sequencing

7.8 In developing a strategy for sequencing an analytic framework provides a useful starting point. The components of a sequencing analytic framework are: (a) policy concerns; (b) regulatory concerns; (c) restructuring requirements; (d) the likely market for sale; (e) and attractiveness of the sector from an investment standpoint.

1/ *This includes four firms for re-privatization, which are small.*

Table 7.1: Privatization Update: Sequencing SOEs Slated for First Stage of Privatization

	Profits/Losses (In million takas)	% of Total Op. Losses of all SOEs	Assets (In million takas)	% of Total Assets of all SOEs
Bangladesh Steel & Engineering Corp.				
1 Bangladesh Blade Factory Ltd	0.64		269.76	
2 Bangladesh Cycle Industries Ltd	-13.35		15.79	
3 Bangladesh Diesel Plant	-7.44		322.47	
4 Bangladesh Machine Tool Factory	-141.82		2,116.27	
5 Dhaka Steel Works Ltd (3 units)	-18.72		52.65	
6 General Electric Manufacturing	-47.78		957.20	
7 Metalex Corp Ltd	-17.49		868.00	
8 National Tubes Ltd	-23.78		817.47	
Sub - Total	-269.74	3.17%	5,419.61	1.32%
Bangladesh Sugar & Foods Ind Corp				
9 Amin Agency	-4.89		17.99	
10 Can Making & Tin Printing Plant	na		na	
11 Carew & Co. Ltd	-42.22		576.09	
12 Deshbandhu Sugar Mills Ltd	-33.29		167.47	
13 Kaliachapra Sugar Mills Ltd	-50.38		112.06	
14 Kustia Sugar Mills	-28.20		254.98	
15 Panchagar Sugar Mills	-13.23		333.74	
16 Rangpur Sugar Mills	-30.16		552.39	
17 Setabganj Sugar Mills	-9.75		453.39	
18 Shyampur Sugar Mills Ltd	-22.68		695.09	
19 Thakurgaon Sugar Mills	-12.17		554.58	
20 Zeal-Bangla Sugar Mills Ltd	-1.10		302.05	
Sub - Total	-248.07	2.91%	4,019.83	0.98%
Bangladesh Chemical Industries Corp				
21 Bang. Insulator & Sanitoryware	32.53		425.31	
22 Chittagong Chemical Complex	-19.35		310.79	
23 Chittagong Cement Clinker	74.13		378.37	
24 Chattal Cement Factory	48.52		1,107.49	
25 Dhaka Match Factory	n.a.		n.a.	
26 Eagle Box & Carton Manufacturing Co. Ltd	1.20		108.28	
27 Karnaphuli Rayon & Chemicals Ltd	67.11		2,023.81	
28 Khulna Hard Board Mills Ltd	3.23		57.72	
29 Kohinoor Battery Manufacturing Ltd	-53.33		108.61	
30 Kohinoor Chemical Co. Ltd	-66.61		386.96	
31 Lira Industrial Enterprises	4.63		92.76	
32 North Bengal Paper Mills	-120.02		671.68	
33 Potash Urea Fertilizer Factory	-25.31		1,719.17	
34 Sylhet Paper & Pulp Mills	-16.18		1,184.38	
35 Ujala Match Factory	-28.09		28.33	
36 Usmania Glass Sheet Factory Ltd	21.21		285.89	
Sub - Total	-76.33	0.90%	8,889.55	2.16%
Bangladesh Textile Mills Corporation				
37 Noakhali Textile Mills	-26.29		168.07	
38 Madaripur Textile Mills	-26.91		144.58	
39 Kishoreganj Textile Mills	-19.45		76.48	
40 Barisal Textile Mills	-31.53		93.69	
41 Kohinoor Spinning Mills	-19.87		79.68	
42 Bangladesh Textile Mills	-26.61		35.96	
43 Khulna Textile Mills	-17.78		20.08	
44 Sharmin Textile Mills	-27.97		82.46	
45 Dhaka Cotton Mills (National?)	-22.21		18.61	
46 Zofine Fabrics	-0.69		12.18	
Sub - Total	-219.31	2.57%	731.79	0.18%
Total (Except Jute)	-813.45	9.55%	19,060.78	4.63%
Bangladesh Jute Mills Corporation				
55 9 Consolidated Units	-746.64	8.76%	4,484.46	1.09%
Total	-1,560.09	18.31%	23,545.24	5.72%

* Excludes four renationalized companies slated for privatization namely Dosha Extraction, Bangladesh Oil Mills, National Ice Factory, and Star Roller Flour Mill. Figures are as of FY 1991.

7.9 Under the heading policy concerns, consideration is given to issues such as wealth concentration, foreign ownership, the role privatization can play in resolving enabling environment concerns and helping with private sector development.

7.10 Examining the regulatory climate involves the review of the competitive climate, an assessment of the importance of the SOE to Bangladesh's overall economic well being, and consideration of whether there are any environmental, public safety or consumer issues.

7.11 The level and type of restructuring required to prepare an enterprise for sale will affect the ability to sell the enterprise, not only in terms of the time it takes to effect the restructuring but also in terms of the resources required. Determination of whether legal, financial and operational restructuring is required is one aspect. Another is the question of whether impediments exist and whether wider sectoral issues need to be considered,

7.12 The likely market for sale is important. There is little point nominating a business for sale where market interest is non-existent. The market issue involves matching the policy conclusions against the level of and type of perceived local and foreign interest together with the expected sale price.

7.13 Finally, it is helpful to consider the industry sector overall attractiveness. Factors such as profitability, level of government protection, market growth potential all come into play.

7.14 *Sequencing an Art not a Science*. As stated above an analytical framework is only a starting point, it tends to define what is possible. It does not take into account such issues as (a) the administrative capacity needed to support the privatization process; (b) mobilization of popular support for the program; (c) the unique chemistry of each sequencing approach; (d) overriding fiscal imperatives; and (e) opportunism. The final sequencing approach will reflect these points.

7.15 The GOB has committed multilateral and bilateral support for privatization. The "fixed costs" of setting up the Privatization Board are being incurred anyway. Technical assistance to the Privatization Board will be provided by international agencies and the Privatization Board will be supported by highly qualified international and domestic consultants. Ideally the attention of the international consultants should be to focus upon the implementation of the more complex privatizations rather than on the relatively routine task of selling the smaller SOEs via tender. The tendering procedure once refined and adopted can be routinized and replicated for subsequent sales. The Privatization Board should, therefore, in addition to refining the implementation rules for the already-chosen firms, focus its creative energies and high-level staff on privatizing the larger SOEs.

7.16 The mobilization of popular support will require the infusion of an important "political sense" to the process, for example, the feasibility of sale of the key utilities to foreign multinationals, which may well be in economic terms the optimum decision versus a well conceived joint venture with foreigners.

7.17 Sequencing has an important "chemistry" component. Success will tend to build on success. As in Bangladesh's case a series of mistakes in the implementation and selection of privatized entities has led to a perception of overall failure. This perceived failure is now being used

by opponents of privatization as one reason why the privatization program should be postponed. GOB should take the opportunity to present these mistakes as valuable lessons, the pillars of success on which it can build its future privatization program.

7.18 As outlined previously many of the public enterprises are running significant losses and thereby causing significant fiscal distress to the GOB. This situation provides a strong pragmatic incentive to move quickly with privatization. Unfortunately, a sequencing overly focussed on fiscal issues will lead, as it has in the past, to the least attractive ventures being put up for sale first.

7.19 The final issue is best labelled as opportunism. Opportunities often arise with a unique window of time in which they can be implemented. The GOB needs to be able to both recognize, evaluate and if deemed appropriate react. These opportunities often arise, for example, with foreign multinationals, who may be seeking to establish a reference site in the region.

7.20 *Quick Privatization or Gradualism*. Sequencing has two important components: (a) the order of sale; and (b) the pace at which the privatization takes place. As regards the pace of privatization, there are several options that must be evaluated: (a) immediate or quick privatization; (b) an intermediate approach; and (c) gradualism. There is no reason why GOB should not proceed with haste on privatization. There are, however, a number of practical reasons why the privatization program will take some time to complete. These are: (a) the sheer size of the program; (b) the benefits that can be gained by coordinating the program with other enabling environment reforms; (c) the need to put in place for some privatizations basic regulatory protections; and (d) GOB's administrative capacity. Because of these factors, while privatization could be regarded as quick, it will take some time to implement. Therefore, in terms of the options presented above, this program whilst "quick" in intent will be gradual in form.

Proposed Sequencing Strategy

7.21 Applying the analytical framework, in conjunction with the cross country lessons detailed above, shows the need for a two phased privatization sequencing strategy. The first would be to continue with the current program privatizing manufacturing and other relatively small SOEs. The second would involve privatizing some of the larger SOEs, utilities and infrastructure sectors.

7.22 Continuing with it as a matter of urgency the present manufacturing enterprise privatization program, will produce several benefits: (a) it will reinforce GOB's message of reform to the domestic and foreign private sector; (b) in itself it will help develop and sustain the private sector; and (c) it will provide further impetus to GOB's wide ranging program of reforms in the overall enabling environment.

7.23 As shown previously these SOEs in the manufacturing sector are not extensive in value terms and provided as businesses they are fundamentally sound, they can be acquired by the local private sector in a relatively short period of time. The main factor delaying privatization will be the GOB's administrative incapacity to handle a large number of transactions virtually simultaneously.

7.24 However, GOB will obtain most of its substantive efficiency benefits from privatization through a reduction in its role in the utilities and infrastructure sector (representing 80% of SOE values) and in other larger SOEs. This group needs to be included if the GOB is to have a credible privatization program. Privatization of these enterprises will also have positive downstream benefits for Bangladesh's entire industrial sector. Moreover, it is these businesses that will tend to attract foreign investment, which is so necessary for Bangladesh's economic development.

7.25 Privatizing these businesses will not be straight forward as in each case there will be complex regulatory and commercialization issues to work through. It is likely in many cases that the businesses will have to be restructured. This may involve leasing, contracting out, BOO/BOT arrangements as well as outright sale. In many sectors work has commenced on these issues and broad privatization strategies are emerging for each of the core utility and transportation sectors.

7.26 The GOB's approach to the power sector includes the following initiatives: (a) rehabilitation of generating plant and the transmission system; (b) restructuring and corporatization of the sector; (c) establishment of an appropriate regulatory framework; and (d) encouraging private sector participation in new investment. These initiatives are designed to remedy fundamental deficiencies in sector governance (i.e., lack of autonomy and accountability of sector entities, absence of competition and private participation).

7.27 In the telecommunication sector these same themes of reform emerge. In this sector, however, there is a greater focus on creating an environment where existing facilities can be taken over by the private sector, and allowing for a competitive market to develop. In particular one of the key elements of the policy agenda is the establishment of a second carrier to provide basic telephony service in competition with BTTB with the aim of bringing both new private investment and foreign operator expertise into the sector.

7.28 Reform in the gas sector has been substantially assisted by the recent GOB decision to allow for gas producer prices to be directly linked to the international fuel oil price. This move has already led to the renewed interest of international oil companies in production sharing agreements. Parallel to these moves GOB intends to establish a suitable policy and regulatory framework and corporatize the gas companies.

Conclusion

7.29 The GOB's present approach to sequencing must change. There should be a greater emphasis on including the larger stronger industrial sector entities and some of the utilities and infrastructure sectors in the immediate privatization program. This should be in addition to rather than in substitution for the current plans to privatize the manufacturing sector.

Recommendations

7.30 (a) The present manufacturing enterprise privatization program should be continued with urgency.

(b) Privatization should involve some of the larger SOEs, utilities and infrastructure sectors in parallel.

CHAPTER 8

INSTITUTIONAL ARRANGEMENTS FOR PRIVATIZATION AND SOE REFORM

8.1 This chapter deals with the institutional arrangements for the privatization process and management of public enterprises and private sector partnerships.

8.2 The institutional arrangements designed for the privatization process are critical for the success of the Bangladesh program. There are many issues that come under the general heading of institutional arrangements. However, the focus in this section will be somewhat restricted to the choice of the "agent" to work on behalf of the government for the privatization function, its location, legal status, organizational structure, staffing, resource availability, degree of autonomy and links with other ministries. This section will also concentrate on additional institutional safeguards necessary to generate consensus, ensure speed, retain transparency and achieve overall success of the privatization program.

8.3 This first section reviews the international experience in this area with a view to deriving lessons of relevance to Bangladesh. Next, it reviews Bangladesh's own past to identify the causes of limited success and current arrangements. Finally it provides specific suggestions on the institutional arrangements for Bangladesh.

International Experience

8.4 Five countries generally considered to be relatively successful were chosen for our review: Chile, Argentina, Malaysia, Pakistan and Mexico. A comparative summary of their key features is summarized in the accompanying matrix. Details of individual countries are presented in Annex 4.

8.5 *Location of Centralized Unit and Responsibility for Overall Program*. In all cases, the overall responsibility for the program rests with a central unit. This central unit is responsible for the conceptualization of the program, policy-making aspects related to the program, decisions on the overall scope, sequencing and techniques of the program.[2/] However, the precise location of the centralized authority varies across the countries. In Chile, it is the holding company CORFO, in Argentina, it is a special unit within the Ministry of Economy, in Malaysia, the Economic Planning Unit (EPU), in Mexico, the Finance Secretariat (SHCP), and in Pakistan an independent Privatization Commission. Nevertheless, the common element in all five countries is that these agencies (and the persons heading them) had clear mandate from, and direct access to the Head of the Governments. Indeed what appears to have spurred privatization in these countries is not so much location per se, but rather the priority assigned to the program and the access and voice given to its leadership.

2/ *However, decentralized privatization structures have been experimented with elsewhere, but as privatization programs have grown institutional arrangements have become more centralized. And the experience is that with more centralized structures, firmer "privatization pipelines" have emerged with governments more clearly identifying the SOEs for sale, methods of sale and time-table for implementation. Most countries have also impr·wed inter-ministerial coordination.*

8.6 *Role and Position of Chairperson*. It is conventional wisdom that a single person must be made responsible for the privatization program to ensure accountability and that the program receives the time and single-minded attention it deserves. (For example, in Bangladesh, the members of the ICOP -- all senior civil servants, and thus overly committed -- could seldom devote the time that the privatization program deserved in the early stages). However, our review provides no clear consensus on this issue. In two countries, Pakistan (cabinet minister) and Malaysia (Director General, EPU) were primarily responsible. In Argentina, the Undersecretary heading the special unit within the Ministry of Economy was primarily responsible. However, for each enterprise a separate commission was created that worked with the chief executive of that enterprise in developing the details of the execution plan, i.e., the implementation process was considerably decentralized. One reason for the involvement of the chief executives of the units and a separate privatization chairman for each enterprise is the large size of these units in Argentina (e.g., airline, railway company, gas, electricity, and petroleum). In Chile, the Normalization Unit within CORFO was critical in implementation but the overall responsibility was with the Board of CORFO. In Mexico, the Coordinator General of the operational unit within the Finance Secretariat was only one rank below the Secretary of Finance and had direct access to the Secretary and President. Another feature of Argentina, Chile and Mexico is that because of the large scope of their privatizations (compared to Pakistan and Malaysia) the heads of government, President Menem in Argentina, President Pinochet in Chile and President Salinas were providing the push and overall leadership for their programs.

8.7 *Size of Centralized Unit*. In most instances, the staff size of the centralized unit was very small. In Pakistan, for example, the technical arm of the privatization commission had six experts, and the three members of the privatization commission, the Chair, member-secretary and the technical member made most of the decisions. In Argentina, the unit in the Ministry of Economy was also small and most work was delegated to individual privatization commissions. In Chile, the unit within CORFO consisted of one manager, four senior staff and four administrative staff. Mexico also operated with a small staff of a Coordinator General and six working staff and managed to sell hundreds of small and large firms. Even in Malaysia which had the largest group, the Director General of EPU in Malaysia was assisted by two Deputy Directors and a total staff of 15-20. The lessons from this for Bangladesh in developing its privatization unit is that quality is much more important than the quantity of the personnel. Secondly, the Pakistani model is relatively more applicable, since the chosen technique in Bangladesh is similar to that in Pakistan, i.e., centralized auctions.

8.8 *Role of Private sector*. This five-country review suggests that the private sector played an important role in implementation and a limited role in decision-making. In all five countries, the private sector carried out most of the technical work. In Pakistan, the private sector undertook the valuation and setting of reference prices; in Malaysia, private sector consultants developed feasibilities and details of the program; in Chile, private stock brokerages were recruited to implement various phases of the program, including valuation and direct sales to employees; in Mexico, commercial banks acted as sales agents to carry out the divestiture process; and in Argentina, private consultants operated with great autonomy under broad guidelines to plan the sale of individual units and provide direct support to the Privatization Commissions created for specific units. However, in no case were private sector individuals represented on the Board or had formal positions within the centralized units or in the bodies (usually cabinet-level) that gave final approval.

8.9 *Degree of Autonomy*. In all five countries, the centralized units operated with considerable autonomy. However, the source of autonomy was different from country to country. In Pakistan, for example, where the central bureaucracy is very strong and intrusive, the problem was resolved by choosing a Commission Chairman of cabinet rank with past experience and close ties to the Prime Minister. In Chile, where the Normalization Managership Unit was relatively small and less autonomous, the privatization program had the support of the high-level CORFO Board and a president ideologically committed to divestiture. In Mexico, the operational unit within the Finance Secretariat had considerable autonomy in the early stages of the implementation, planning and execution. However, the inter ministerial commission had the sole authority to analyze proposals, decide method of sale and finalize decisions. Argentina had perhaps the most decentralized program as well as the greatest private sector participation through the individual units created for each enterprise. This degree of autonomy was necessary because of the massive scope of the program, the deadline imposed by the President to complete most major transactions by 1992, and the relatively limited capacity of the unit to deal with complex issues such as privatization of monopolies and regulation issues. Also, in these countries, the cabinet and the parliamentary committees which were primarily involved with the formal approval of the sales process were insulated from day-to-day involvement by ministers and politicians. In the case of Argentina, for example, the sale was automatically considered as approved if the bi-partisan committee of the parliament did not raise any serious objections--or failed to reach consensus--within 30 days.

8.10 *Transparency*. The five countries all attempted to ensure some degree of transparency in the system. In Pakistan, an open auction bidding system ensured that transparency prevailed until the stage of the award of the sale. If there have been some concerns in Pakistan, they relate to the post-award finalization-of-sale negotiations. It is at this stage that certain assets and liabilities can be re-estimated or collusion can take place. In complex sales in Argentina, internationally recognized technical operators were brought into the bidding process. The sale of shares through stock market, for large companies also ensured transparency and limited the scope for arbitrary or collusive behavior. In these countries, a process of appeal was also instituted. Mexico established a unique method to ensure transparency. To avoid negotiations or bargaining after acceptance of bids, the legal contract was released to potential bidders to review and modify prior to submitting a proposal.

8.11 *Other Features*. A striking feature of these five countries is that in each case the "champion" of privatization was the Head of the Government himself. Presidents Menem (Argentina) Salinas (Mexico) and Pinochet (Chile) and Prime Ministers Mahathir (Malaysia) and Sharif (Pakistan) all openly supported and actively campaigned for privatization.[3/] Of course many other "technocrats" and donors were involved in the early stages of the campaign for privatization. However, in the critical stage, and until success was finally attained, privatization policies were being championed directly by the leaders of the government. This often meant that the resistance from the bureaucrats was overcome and the various organs of the state were fully behind the policy. A consensus was thus achieved within the government and active opposition was overcome.

3/ *This is also true of two other successful privatizers not included in the sample: Great Britain (Prime Minister Thatcher); and Jamaica (Prime Minster Seaga).*

8.12 In at least three countries, Pakistan, Chile and Malaysia, the role of the international agencies and donor community was minimal in the active phase of privatizations. Thus, the scope and speed of the programs were being determined by the governments themselves, even though the international agencies endorsed the general direction of the program. In the case of Argentina, however, the World Bank has provided direct assistance in the development of guidelines for technical experts and in analyzing the range of issues in these complex privatizations.

Review of Past Approach to Divestiture in Bangladesh and Reasons for Failure

8.13 This section examines the past institutional arrangements for privatization in Bangladesh. Different phases of the privatization program in Bangladesh are examined to show how the organizational structures used to implement privatization contributed to the success (or lack of it) of the program.

8.14 The earliest attempts at privatizations began soon after Independence in 1971. Divestiture consisted of the sale of smaller enterprises that were abandoned (by their Pakistani owners) and had been placed under various sector corporations. However, the most significant wave of divestitures occurred in 1982. Not much is known about the institutional set-up for privatization between 1971 and 1982 except that a large number of small industrial units were sold through tenders and that the procedures for these tenders were approved by the Cabinet and implemented by the Disinvestment Board of the Ministry of Industries, the unit in charge of privatizations at the time. Using this arrangement the Government was able to sell a large number of enterprises through auctions. Nevertheless two main concerns with the set-up for privatization for this period have been raised: first, there have been charges of lack of transparency and second, the lackluster performance of privatized enterprises has often been attributed to the way enterprises were divested.

8.15 Following the declaration of the Industrial Policy of 1986 which, in part, aimed at an accelerated privatization program, the government attempted to remedy the above charges by creating two new institutions to accelerate the privatization program: an Executive Committee to function as an oversight body for the Disinvestment Board and a Working Committee to assist in the review and implementation of divestiture. However, it was soon realized that the roles of the different agencies were not clearly defined, and this failed to revive the lagging privatization program. Not a single enterprise was divested between 1986 and 1991.

8.16 Another attempt was made to give greater impetus and coordination to the privatization program in 1991. The GOB created the Inter-Ministerial Committee on Privatization (ICOP) with the responsibility for "developing privatization policy as well as considering, approving and monitoring specific privatization proposals for the various administrative ministries." This stylized divestiture process could be described as follows: The Ministry of Industries would submit a list of "suitable" candidates for divestiture. (The criteria for the selection were not clear). ICOP approved this list which was then forwarded to ECNEC for final approval. The list was then sent back to the Ministry of Industries through ICOP to the Working Group for purposes of valuation, pricing, and preparation of bidding documents. The profile is sent back to ICOP for review and fixing of reserve prices. ICOP then instructed the Ministry of Industries to proceed with the sale

and negotiate with potential buyers. ECNEC approved the final sale on the recommendation of ICOP.

8.17 In sum, the institutional arrangements for privatization between 1986 to 1993 failed for two main reasons. First, attempts to accelerate privatization by creating other units/bodies had the opposite effect on the privatization program: it resulted in a process that was too cumbersome and very slow. Second, although five agencies were involved in the implementation of divestiture--The Executive Committee of National Economic Council (ECNEC), ICOP, the Disinvestment Board, the Executive Committee (for Privatization), and the Working Group-- no single entity was responsible and accountable for success. ICOP, which in theory, was created to streamline the privatization process failed because: (a) it had no full-time member, single-minded and committed to privatization; (b) it had no staff with the technical know-how to implement privatization; and (c) it was not given the mandate and autonomy to engage in privatization transactions. Its role was limited to monitoring and approval functions. It lacked the mandate, autonomy, and appropriate staff to engage in transactions.

8.18 More recently, given the increasing losses of public enterprises the government has decided to expand the scope and accelerate the privatization program. The Ministry of Industries has selected 40 enterprises to be divested. Furthermore, the Government has proposed the divestiture of several jute mills. The scale of the proposed divestiture of jute mills is a complex task which overshadows any other divestment program undertaken by the Government of Bangladesh. Given the reasons above, and coupled with the failure of ICOP, the Government has introduced a new structure for privatization. Privatization is centralized with a new Privatization Board which is an agency within the Cabinet Division. It reports directly to the Cabinet Sub-Committee for Finance and Economic Affairs. The Board is responsible for implementing the privatization program of the government and has its own budget and staff. The staff consists of 8 part-time members and two full time members who will serve as deputies. In addition there will be six directors and 6 deputy directors. The latter will have working groups working under their supervision. In addition, the Board is given the authority to recruit consultants such as financial advisors, industry technical experts, accountants and legal specialists to assist with the technical work as necessary.

8.19 Centralizing privatization in Bangladesh is desirable given economies of scale in dealing with complex transactions. Experience from countries that have successfully divested public enterprises such as Mexico, Argentina, Chile and Pakistan show that to contribute to success, an institutional structure set up to recommend policy guidelines and to implement privatization should have: (a) a centralized unit with overall authority for planning (and executing) the privatization program; (b) that the size of the central secretariat should be a small body of technical staff with the bulk of the work contracted out to technical experts.

8.20 Current arrangements for the Privatization Board will need to be carefully reviewed on several grounds:

(a) location of the Privatization Board in the Cabinet Division does not necessarily vest it with the required authority or autonomy. What is critical is not merely the location but the mandate of the Privatization Board and the unqualified and open support of the Prime Minister.

(b) Government pay scales and rules in respect of employment of consultants and tendering processes are potentially a significant constraint to the effective operation of the Privatization Board. In employing consultants the government rules may not make feasible employment of more competent staff. At present, the only way round the problem is the use of multilateral and bilateral technical assistance funds. The government rules also severely limit effective publicity and advertising. The rules allow for only minimal advertisement locally and very limited international exposure. Here again the Privatization Board's activities will need to be insulated from government rules and constraints.

(c) The Ministry of Finance is not only responsible for monitoring the performance of public enterprises, through the Autonomous Bodies division, but it is the central adviser on economic matters. The Privatization Board will need to develop a close and effective relationship with the division in particular and the Ministry in general. Whilst the Privatization Board may have its own authority through the Secretary to the Cabinet Division, the Ministry of Finance must be supportive. The only way it will be supportive is if it is adequately consulted and fully informed. These aspects are covered in more detail in the reform and monitoring section which follows.

Desirable Institutional Arrangements

8.21 Based on the experience in Bangladesh, it is clear that an institutional arrangement designed for a successful privatization program should have these following key features. First, the Board should be given its own budget plus ability to attract highly qualified staff with the requisite skills to provide the internal dynamism necessary to meet its privatization objectives. Second, the Board's activities should be seen as transparent. In Bangladesh this means that there should be (a) guidelines for all involved in the privatization process; (b) minimal negotiation, i.e., bidding documents should contain all information including the government's concerns; and (c) the consensus and support of the Prime Minister and Cabinet as well as top civil servants.

8.22 *Size of the Privatization Board*. The Board should consist of a small qualified core staff including a privatization specialist, a lawyer, an economist, financial analysts and accountants. The Board should contract out a substantial amount of divestiture work to technical staff.

8.23 *Degree of autonomy*. There are at least three things that the Board should be allowed to do at a minimum: (a) the Board should be given its own budget and be allowed the flexibility to hire its own staff as well as technical experts as necessary; (b) the Board should be given a strong mandate to manage, coordinate, and implement the privatization program. It should: formulate and recommend policies, procedures, programs and operational guidelines for divestiture, organize the bidding process, receive and evaluate offers and proposals, make recommendations to the Cabinet Committee on large enterprises but negotiate the final divestiture of small and medium enterprises, prepare public awareness campaigns, and coordinate all labor dimensions of the program. The Board should be independent of the line ministries and should be insulated from political interference; and (c) regarding SOEs referred to the Cabinet, the sale should automatically be considered as approved if the Cabinet does not raise any serious objections -- or fail to reach a consensus-- within 30 days.

8.24 *Donor Coordination*. The Board has an important role in coordinating donors' efforts and ensuring their programs are consistent with the overall privatization objective. To this end, it should be encouraged to hold regular donor privatization coordination meetings.

8.25 *Private Sector Role*. Most of the technical work such as valuation, preparation of bidding documents and advertising, should be contracted out to private sector companies or consultants. Also, private sector representation on the Board should be considered as a way of including private sector concerns in the privatization process. The private sector can also be involved in the campaign for increasing public support. One technique for involving the private sector is the use of a small advisory board consisting of some of Bangladesh's most respected business leaders and professionals. This board could review and advise on all submissions to the full Board.

8.26 As Bangladesh lacks domestic expertise with experience in privatization, foreign consultants will need to play a supportive role in structuring and implementing the details of each transaction. A program of technical assistance will thus need to be urgently put in place (Refer Annex 5) Two types of technical assistance should be sought: operational and logistical support for the Board itself and support for specific transactions. The use of foreign consultants will, however, have to be carefully managed in what is politically a sensitive area and so as not to provide ammunition to opponents of privatization who have argued privatization is basically an exercise in selling national assets to foreign investors.

8.27 *Transparency and Accountability*. The privatization program must be transparent. The Privatization Board should produce a set of operating guidelines that will provide information to the various committees engaged in divestiture. Potential investors should also receive the procedures to be followed. The guidelines should be clearly defined and should help ensure that each divestiture transaction adheres to a set standard procedure that is transparent and subject to public scrutiny. They should also be used flexibly to ensure usefulness to different kinds of transactions. Operators should be brought into the bidding process.

8.28 Privatization so far has had a poor press in Bangladesh and public thinking on privatization has tended to be more influenced by its adversaries. This trend should be arrested and then reversed. The first steps should be for GOB pronouncements at the highest level for the goals and objectives of the privatization program to be clearly spelled out. To generate a consensus for privatization, a follow-up media/public relations campaign would be important in Bangladesh. The campaign itself should be "privatized" and more critically, to the extent possible, the active and continuing support of the Prime Minister should be secured. Successful implementation of privatization requires political will combined with technical competence and managerial drive.

8.29 *Separate Bodies for Utilities*. In the utility sector, privatizations particularly of electricity and telecommunications will be highly complex. In these cases, GOB may consider establishing separate institutional arrangements for each utility. These arrangements should be at a minimum coordinated with the Privatization Board and ideally form a subset of the Board's activities.

State-Owned Enterprise Reform

8.30 In spite of the push towards an accelerated privatization program in Bangladesh, it can be safely assumed that some enterprises will continue to remain under public ownership over the medium term, because of the slow pace of the privatization program, the size and nature of their operations or limited interest from the private sector. It is therefore important to focus on improving the efficiency of the enterprises which will remain under the state ownership, at least over the medium term. These SOEs may cover enterprises such as railways, water, electricity and telecommunications which are the ones where efficient functioning is vital to development. The question, therefore, is "what actions can the government take to increase SOE efficiency?"

8.31 A comprehensive treatment of SOE reform issues in Bangladesh is a task that cannot be fully addressed in the context of this report. To address the existing flaws in government supervision of SOEs, the rest of this chapter will focus on some broad guidelines: (a) articulation of an SOE policy; (b) improved performance contracting and monitoring of public enterprises; (c) increased management autonomy and incentives; (d) staff rationalization; (e) competition/collaboration with the private sector; and (f) cost reduction and review of pricing policies.

8.32 *Articulate an SOE Policy*. SOE losses have been mounting year after year. Aggregate losses of loss-making SOEs have reached Tk 20 billion in 1992/93. Services provided by SOEs too have fallen far short of acceptable levels. Compounding SOE problems have been uncertainties arising from the privatization schemes recently introduced. In this environment many SOEs suffer from a lack of direction, are uncertain about their own future and are increasingly demoralized, leading to declining performance. Indeed in many SOEs, uncertainty about their future is rated as the single-most important cause of low labor productivity (see Table 4.2, Chapter 4). It is important that these uncertainties should be dispelled. GOB's policy statement which clarifies which SOEs or groups of SOEs will be privatized, say, in the next five years, should also identify the SOEs that will remain in the state sector over that period in partnership/competition with the private sector, and clear directions should be given as to the nature of their operations. This could include for each SOE plans for the short term (1 year), medium term (1-5 years) and long term (over 5 years). An integral part of these plans should be loss reduction/profit increase targets for each of these time periods, and rigorously enforced by hard budget constraints. The policy should make clear that failure of an SOE to realize these targets will result in the divestment of its remaining operations. This approach of "perform or perish" should give SOEs every inducement to improve performance and measure up to the standards set.

8.33 *Strengthen SOE Oversight Body and Performance Contracting*. A system of evaluation of SOEs has been in place in Bangladesh since the early 1980s. In theory, the Monitoring Cell of the Ministry of Finance is expected to monitor SOE performance based on "contracts" with individual SOEs. These contracts include performance indicators and targets. In practice, in spite of the good intentions and the efforts of a few dedicated individuals, the evaluation system is not institutionalized and operates in a parallel fashion to traditional process of budgeting. Thus, the efficiency based indicators and targets are ignored and therefore, the system of monitoring public enterprises is ineffective. Another factor contributing towards this ineffectiveness is the lack of authority maintained by the Monitoring Cell to enforce its targets; hence, implementation is weak.

8.34 The Ministry of Finance should strengthen the existing system rather than initiate a new evaluation system because the basic principles underlying the contracts are sound. Specifically the GOB should first clarify the objectives of SOEs. This should be defined to include profit maximization (given social obligations), revenue generation and/or provision of services at minimum cost. These objectives should be translated into targets which can be quantified and monitored. Second, the GOB should address the lack of institutional capacity and resources to monitor public enterprises by giving the Monitoring Cell a clear and strong mandate to monitor and evaluate SOEs.

8.35 *Increase Management Autonomy and Incentives*. Once objectives are clarified and a system of evaluation is in place, the GOB should link compensation for top managers with performance. Many countries (Korea, Indonesia and Pakistan) have established a linkage between performance and compensation with positive results. Further, if salaries are delinked with civil service pay and brought in line with the opportunity cost of the technical staff, it will be easy to attract and retain high quality staff.

8.36 However, if performance is to be linked with the reward structure, management autonomy should be increased. Past efforts at reform have, by and large, not been successful. In many cases agreed and funded reforms have not been implemented, the primary reason being that SOE managers were restricted from being able to fully implement reforms. In parallel with linking performance with compensation, therefore, SOE managers should be given the authority to make independent investment decisions (this is particularly important given the heavy bureaucratic tradition in Bangladesh) and make independent decisions regarding personnel and procurement. In other words, there should be a balance between autonomy and accountability.

8.37 As noted in the ADB's technical assistance report, "the present system of ministries, corporations and PMEs can be characterized as the classic separation of power from responsibility. The management of PMEs are responsible for operating their enterprises but are denied the powers necessary to do so; many of the powers are, in practice even if not always in theory, exercised by the sector corporation or sectoral ministry. The result is that there is no real accountability." The creation of GOB limited liability holding corporations, which would own the SOEs, could help reduce direct interference from government ministries. GOB's Industrial Policy statement of 1991 announced that public manufacturing enterprises "will be managed by the boards of directors ... according to the company law, and will enjoy autonomy in their management ..." and that sector corporations would be converted into holding corporations. The major objective was to improve the operational efficiency and economic viability of these state enterprises. However, not much progress has been made in the implementation of this policy, and little has been achieved in terms of actual and effective corporatizations, autonomy, improved budgeting and MIS.

8.38 A major problem with SOEs is the extensive reporting requirements. This is a common complaint from SOE managers in Bangladesh. Excessive reporting requirement is time consuming and impedes the efficiency of dynamic managers. Reporting requirements should therefore be substantially reduced to allow sufficient management autonomy and eliminate overlap.

8.39 *Rationalize Staffing*. Overstaffing is another major issue, and many SOEs have been unable to reduce employment to reflect declines in production or where excess capacities have emerged. The problem is particularly acute in the manufacturing/industrial SOEs which account for

more than one-third of total SOE employment of around 453,000. Overstaffing in most of these SOEs is expected to be addressed in the context of on-going and up-coming privatization programs. Similar staff rationalization schemes are no less compelling for other SOEs. Principles of voluntary departure schemes and safety net and financing arrangements that have been evolved under the privatization programs (see Chapter 3) could, with suitable modification, be applied to the rest of the state sector. Voluntary separation programs should be closely monitored to guard against abuse and to ensure that separations are matched by reduction in approved positions.

8.40 *Inject Competition*. International experience has provided a clear link between competitive markets and improved performance. Within Bangladesh, the insurance sector provides an illustration of how competitive market force could be introduced in sectors controlled by the state. Prior to 1984 insurance was a state monopoly. In that year establishment of private insurance companies was permitted. Sixteen private insurers now dominate the general insurance business with a market share of 80%. In life insurance four private companies have around a 15% market share. Thus, without actually privatizing any insurance company, the GOB was able to introduce competitive market forces and efficiency to the insurance sector.

8.41 The GOB has made substantial efforts to open up markets to competition. However, there are many SOEs still operating in non-competitive markets. There is a need to inject as much competition into their daily operations as possible while still under public ownership. Measures to enhance competition include: (a) allowing greater international competition by reducing high rates of protection; (b) enhancing domestic competition by eliminating preferential treatment of SOEs in the provision of credit, government contracts, etc.; (c) reducing "barriers to exit" which allow chronically non-performing SOEs to go bankrupt; and (d) opening up areas of the economy hitherto reserved for the public sector such as electricity, and particularly telecommunications where modern technology has rendered the notion of natural monopoly obsolete. Chapter 6 discussed the progress and prospects for introduction of competitive forces to the gas, inland water and air transport, telecommunications and power sectors. As private sector initiatives develop in these areas, the involvement of the SOEs concerned could be scaled back. Alternatively through the holding corporation device, some proportion of the SOEs could progressively be divested through sale of shares, as may be possible, for instance, in Petrobangla, Biman Airlines and Telecommunications.

8.42 *Reform Pricing Policies and Reduce Costs*. In Bangladesh, a principal problem for the SOEs' inability to generate surpluses for financing development and growth has been the pricing policies adopted by the government and/or high operating costs. Inappropriate pricing is particularly true for railways and the rest of the transport sector where prices have been kept below their long run marginal cost and implicit subsidies are provided to consumers. Such underpricing of SOE output is not the most efficient way for achieving equity goals. Typically, the beneficiaries of under-priced utilities are not the poor. While the target group often does not receive the benefits of such pricing it has several consequences for the SOEs. First, it starves the SOEs of further developmental funds and the long run growth is adversely affected. Second, management of loss-making SOEs lose motivation.

8.43 In many other SOEs cost reduction rather than price increase is the key issue. The use of cost-plus pricing rules often followed has implications for the efficiency of SOEs. Often the cost-plus pricing rules do not create incentives for cost minimization for the SOEs. This is clearly

the case when the cost-plus is tailored on the basis of the costs of a specific SOE. It is better to use an average cost of the industry in setting a cost-plus formula or alternately, allow the market to determine the prices. A major element of cost is wages, overtime and pilferage. Prospects of reducing costs in fact tend to be higher in SOEs that make profits, as for example, in BTTB. The need to rationalize staffing has been referred to. In addition, there will have to be a shift from the current centrally-determined wage structure to one that links wages to productivity and profitability if SOE operations are to be placed on an efficient footing.

8.44 *Bangladesh Railways - A Special Case*. Reforms in the Bangladesh Railways, which incurs the fourth biggest loss among SOEs, have so far been within the framework of it being a government department. Though a government monopoly the railway operates under intense competition from private road and river transportation. Railway reform, assisted by the ADB, has two components: manpower rationalization and a general recovery program. The overall objective is to eliminate railway losses by 1994/95. Manpower rationalization has been completed with the voluntary departure of some 10,000 employees, 20% the total workforce. Some unremunerative railway lines have been targeted for closure. The experiment over the past year with the contracting out to the private sector seat reservations and ticket sales has not been particularly successful. Currently the department is experimenting with contracting to the private sector a computerized reservation system for inter-city trains. Exploring other opportunities of private sector participation in railway operations will be one of the objectives of an ADB technical assistance program which began in February 1994, along with an in-depth review of some of the railway's remaining problems.

Conclusion

8.45 Even with an accelerated program of privatization and downsizing of SOEs, some SOEs are likely to remain under state ownership in the foreseeable future. It is important therefore that GOB articulate an SOE policy to give these enterprises a sense of direction and introduce a time-bound program of reforms. These SOEs should be made to realize that if their performance continues to be inadequate, GOB will have no option but to divest their remaining activities.

Recommendations

8.46 (a) The Privatization Board should be insulated from government rules and constraints in respect of employment of consultants and tendering processes.

(b) The Board should be autonomous in its decision making subject only to the power of cabinet veto.

(c) The Privatization Board should produce a set of operating guidelines.

(d) Two types of technical assistance should be sought for the Privatization Board; operational and logistical support for the Board itself and support for specific transactions.

(e) GOB should articulate an SOE policy and introduce a time-bound program of reforms.

(f) The Monitoring Cell, Autonomous Bodies Wing should be significantly strengthened and given a strong mandate to monitor and evaluate SOEs.

(g) SOE management autonomy and incentives should be increased.

ANNEXES

BANGLADESH: KEY ECONOMIC INDICATORS, 1986/87 - 1992/93 [1/]
(in percent, unless otherwise specified)

	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93 (Est.)
GDP growth rate	4.2	2.7	2.4	6.6	3.4	4.2	4.2
Consumer prices	10.4	11.4	8.0	9.3	8.9	4.1	4.1
GDP/per capita (real growth rate)	2.6	1.5	0.6	4.7	1.4	2.2	2.2
Gross fixed investment/GDP	12.5	12.0	12.2	12.1	10.4	10.3	11.7
Public fixed investment/GDP	6.3	5.6	5.7	5.7	4.6	4.7	6.1
Private fixed investment/GDP	7.0	6.4	6.5	6.4	5.8	5.6	5.5
National saving/GDP	7.1	6.2	5.4	5.2	6.4	8.1	10.1
Public national saving/GDP [2/]	1.2	-0.1	0.3	-0.6	-	1.9	2.3
Private national saving/GDP [2/]	5.9	6.3	5.1	5.8	6.4	6.2	7.8
Domestic saving/GDP	3.6	2.8	2.0	2.2	3.2	4.3	6.0
Government Revenue/GDP	8.9	8.9	9.1	9.3	9.6	10.9	11.7
Government expenditure/GDP	17.3	16.1	16.4	17.0	16.4	15.2	17.8
Deficit (-)/GDP	-8.4	-7.2	-7.3	-7.7	-6.8	-4.3	-6.1
Domestic bank financing/GDP	0.6	-0.1	-0.9	1.1	0.2	-0.3	-0.4
Domestic credit growth rate	8.7	13.4	13.2	18.9	10.1	5.3	8.2
Export value growth rate	31.1	14.7	4.4	18.5	12.7	16.0	19.4
Nontraditional export growth rate	72.9	26.8	7.1	17.8	24.1	21.6	24.7
Exports/GDP	6.1	6.4	6.3	6.7	7.3	8.4	9.6
Nontraditional exports/GDP	3.3	4.4	4.4	4.7	5.7	6.8	8.2
Import value growth rate	10.8	14.8	13.0	11.4	-7.7	-0.2	11.2
Imports/GDP	14.9	15.6	16.4	16.5	14.8	14.6	15.6
Current account (in US$ m)	-966.0	-1,112.0	-1,402.0	-1,541.0	-932.0	-516.0	-389.0
Current account/GDP	-5.5	-5.8	-6.8	-6.8	-4.0	-2.2	-1.6
Aid disbursements in (US$ m)	1,595.0	1,640.0	1,669.0	1,810.0	1,731.0	1,611.0	1,599.0
Aid disbursements/GDP	9.1	8.6	8.1	7.9	7.4	6.8	6.5
Debt service ratio	27.9	22.5	21.0	19.9	20.2	14.8	12.8
Gross reserves (months of imports)	3.4	3.3	3.2	1.7	3.0	5.6	7.0

[1/] Data are for fiscal years ending June 30.

[2/] Owing to data limitations, operating surpluses and deficits of public enterprises are included in private saving, while a portion of public enterprises investments (that which is channeled through the ADP) is included in public sector investment.

Source: Bangladesh Bureau of Statistics and staff estimates.

BANGLADESH: EVIDENCE OF OVERSTAFFING AND LOW LABOR PRODUCTIVITY

1. This section documents the extremely low labor productivity in the Bangladesh SOEs and the prevalence of overstaffing. Two sources of data are used to analyze the labor productivity in Bangladesh SOEs: (a) a recent study by the ADB that focusses upon the units in the Chemical, Sugar and Food, Steel and Engineering, Forest and Textile industries (Table 4.1); and (b) unit level data on 134 firms, collected for this exercise. The study has demonstrated that the scope for improvements in labor productivity is very high.

2. The ADB study has attempted to determine the scope for improvements in productivity by estimating the extent of the excess staffing of workers, and "officers and staff" in 1991. The "excess staff" numbers are based on the very plausible assumption of the enterprise attaining its own previously attained highest level of labor productivity. Thus, for example, for a given enterprise, if output is 100 units and number of employees is 50 then labor productivity is 2.0 in 1991. If this firm had a labor productivity of 2.5 previously (in any of the last five years), then it is reasoned that the labor requirement for 100 produced in 1991 should have been 40 = (100/2.5). Thus, overstaffing is equal to 10(50-40). The ADB estimates should be viewed as low bounds on what is possible because it ignores the possibility of bringing about additional changes in labor productivity due to changes in the management, incentives and work culture.

3. The principal findings are:

(a) At least twenty percent employees in the "workers" category are redundant. More dramatically, 54% of the employees in the "officers and staff" category are redundant.

(b) The cost savings associated with eliminating these redundant employees are estimated to be Tk. 1.4 billion, enough to turn 12 loss making companies into profitable ones. This suggests the tremendous scope for improvements in financial turn-around under private ownership or vigorous reform measures.

(c) There are no clear-cut patterns of overstaffing across corporations: they are all overstaffed. The worst overall case, including <u>all</u> employees (workers and officers) is the Bangladesh Steel and Engineering Corporation. In the case of BSEC worker overstaffing is greater than 50% for electronics and steel units while officer and staff redundancies approach 81% in the case of transport.

(d) The largest absolute number of redundant category of employees are the officers and staff in the sugar producing SOEs. More than 8000 officers (53 % of total) are redundant. Bringing this factor into control could potentially save the Sugar Corporation Tk. 0.3 billion.

(e) Textiles: The ADB study estimates 19% overstaffing. A World Bank estimate is 30%. The comparisons with other countries are even more dramatic. The estimates for European textile mills are 18-20 kg of higher quality product per operator hour compared to 0.54 kg per operator hour in Bangladesh. This means that European labor productivity is almost forty times higher than that of Bangladesh in textiles. Countries such as India, Brazil and Korea also have much higher labor productivity and consequently, less costs per unit of output. Wages and salary costs in BTMC spinning mills range between 13-33 percent. The corresponding figures in Brazil (8%), Korea (9%) and India (5%) are all lower. In composite milling the Bangladesh figures range between 21-38 percent, compared with figures for India (6%), Brazil (7%), and Korea (12%).

4. The documented instances of overstaffing, as stated earlier, are only the lower bound of what is feasible. Moreover, the above analysis excludes the head-offices of the various corporations where the degree of overstaffing can even surpass that of the individual units.

DEVELOPING BOO/BOT PROJECTS AND OTHER COUNTRY EXPERIENCES

1. *Regulatory and Legal Constraints*. Before a BOO/BOT transaction can take place there are a number of important regulatory and legal considerations to resolve. In broad terms these are: (a) is there an adequate regulatory regime in place from both the point of view of government and the proposed concessionaire? (b) is the proposed transaction allowed for by Bangladesh legislation? In Chapter 2 the regulatory regime for Bangladesh was discussed. There are significant deficiencies identified, particularly in the monopoly area. Any concession which involves a devolution of monopoly power would need to wait until these deficiencies are resolved, otherwise BOO/BOT cannot be proceeded with. Government's specific regulatory concerns can be incorporated into the project's contractual documentation. In the legislation area a case by case review of relevant laws will be required, including any policy requirements to ensure BOO/BOT projects are possible. In general terms there are no legal constraints to BOO/BOT in Bangladesh. There are of course a number of legal concerns in regards the general enabling environment which are also set out in Chapter 2 above.

2. *Privatization Board*. The Privatization Board is about to undertake implementation of the privatization activities scheduled under the jute sector reform, and will be expected to handle the expanded portfolio of privatization candidates though the other industrial sectors. This organization could assume administration in Bangladesh of a public/private partnership program as well.

3. The responsibilities of the Privatization Board in respect of BOO/BOT could be as follows;

(a) Ensure that proposed project candidates meet established socio-economic, technical, and environmental policy criteria;

(b) Market the Bangladesh BOO/BOT program in general as well as specific infrastructure projects to potential investors (local and international), financial institutions, and the donor agencies;

(c) Ensure that proposed projects conform to the "Program Guidelines" and governing acts and procedures;

(d) Administer, through working with the supervisory bodies overseeing BOO and BOT implementation and the line Ministries, the processes of project development. Key liaison skills will be necessary;

(e) Through negotiation, with the input of relevant technical committees and the line Ministries, review and recommend to the Cabinet a decision to accept, reject, or table proposed projects, and;

(f) Monitor and evaluate approved and implemented projects.

4. Involving the private sector significantly in infrastructure would enable IDA and other donor resources to be used in leveraging new and large private sector investments that would otherwise not occur.

Identifying and Processing BOO/BOT Projects

5. As a first step to developing a BOO/BOT transaction, the project identification process that is implemented by the Privatization Board will play a vital role in determining the future possibilities of the entire BOO/BOT program. The project identification process is the foundation upon which the entire "pyramid" rests. Unless this foundation is broad enough, and a suitable quantity of economically important and financially attractive BOO/BOT project candidates are added to the inventory of Bangladesh's BOO/BOT program, there will not be a sufficient number of projects at the "top" that are fully studied, bid-out, evaluated, negotiated, and constructed. More important than quantity, however, is the quality of the projects identified to be structured on a BOT basis.

6. One of the first steps in identifying potential and viable projects in Bangladesh is to develop a Project Master List. This list of potential BOO/BOT candidates is developed through the collection of data, consolidation of existing feasibility studies, and analysis of sectoral candidates from the power, transport, telecommunications, waste management, ports, water, and industrial estates sectors. As the following section explains, it is recommended to first identify projects that have "demonstration" potential. This process and selection will help ensure that the BOO/BOT program in Bangladesh is a success.

7. In order to ensure that viable program and project objectives and outputs are achieved, viable demonstration projects in Bangladesh need to be initiated and developed. There is ample precedence illustrating the wisdom of focussing best efforts on first achieving viable demonstration projects as a way to successfully "kick off" a particular program. In reviewing the transaction history of countries that have successfully introduced privatization programs (Malaysia, Mexico, Chile, etc.), it is confirmed that successful demonstration project implementation formed the basis for overall program success. The implementation of a BOO/BOT program in Bangladesh is no different. Indeed, BOO/BOT programs may depend even more heavily on successful demonstration projects due to their complexity and innovative qualities. Moreover, projects in areas such as water supply and treatment, as well as solid waste areas require special consideration in the project identification and analysis stage. This is due to their unique project structure and the public consumers' unfamiliarity with paying for service in these sectors.

8. Countries that had early difficulty in implementing BOO and BOT projects such as Turkey, Thailand, and Pakistan, for example, all selected initial projects candidates that were far too difficult and costly from a financial, economic, legal, technical, and political nature to be completed successfully and expediently. In the case of Turkey and Pakistan this has been one of the central lessons learned and has led to a greater focus placed on qualitative project selection criteria. In Pakistan, nearly seven years passed between the date BOO/BOT were first announced as a policy initiative and the first BOO project was actually signed (a 1,400 megawatt power plant at an estimated investment cost of $1.4 billion).

Structuring Demonstration Projects

9. In order to realize success and legitimatize the BOO/BOT model for subsequent transactions, most projects will need to be structured so that the chances of project success are enhanced. Experience has shown that a project can be structured to increase the likelihood of success if that is the overriding objective. Typically, this calls for a greater sharing of the risks and responsibilities between the government and the private sector than might ordinarily be required in future transactions. The Government of Bangladesh must consider carefully the implications of "sharing" the risks and plan accordingly. It is important to note that "risk sharing," often called concession agreements, are standard in most countries implementing BOO/BOT projects. It is also important to note that one of the key objectives for the Government of Bangladesh should be for BOO/BOT projects to "stand alone" in the long run. However, initially, projects will require some degree of support by the Government of Bangladesh that can help to mitigate risk while at the same time achieve many of the objectives of BOO and BOT in Bangladesh. The types and forms of support that will likely be required in Bangladesh to support demonstration projects may include:

(a) Political and Bureaucratic Support;

(b) Fast-Track Legal Framework;

(c) Assured Supplies, Dedicated Assets;

(d) Assured Revenues: Take or Pay Arrangements;

(e) Loans or Equity Contributions;

(f) Earning Asset;

(g) Fiscal and Commercial Incentives;

(h) Right of Way or Eminent Domain Assistance.

10. One of the most effective methods to ensure that the maximum number of quality infrastructure projects are identified is to invite private sector firms to identify projects to the Privatization Board. This technique can significantly enlarge the number of project candidates that are fed into Bangladesh's inventory of BOO/BOT projects. Moreover, the private sector can also structure projects using private sector methods of financial performance incentives and risk-allocation. It is worth noting that one of the first BOT projects began with an unsolicited proposal to the Government of Turkey by a private firm, Bechtel Power Corporation of the U.S., to build, operate, and transfer a 960 Megawatt coal-fired power plant at Tekirdag. Indeed, BOTs originated largely as a technique developed by engineering and construction firms to generate more projects at a time when the number of new infrastructure projects was falling during a slump in the international construction market.

11. Unsolicited BOO/BOT proposals that originate with the proposer could be invited, providing they are consistent with and do not conflict with government plans for soliciting proposals. Proposals submitted should advance if on the basis of initial screening, they appear to be technically, financially, and economically viable, and if the submitting firms meet some generally acceptable pre-qualification criteria. An important concern to the sponsor of an unsolicited proposals is that his submission will be treated confidentially, and that clear procedures are established for a prompt and objective evaluation of the proposal. Where the submission is seen to have apparent merit, i.e., represents avoided cost to the government and provides additionality (the investment would not otherwise occur if not undertaken by the private sponsor), the government should be willing to issue a conditionally exclusive letter of intent, permitting the proposer to risk additional time and money in refining and providing more detailed information about his proposal. The Privatization Board will need to establish a clear and workable procedure with well understood criteria for acceptance and approval. This is needed to provide confidence to both the private sector and the government that privately-identified projects can come to fruition.

12. If the project identification process forms the foundation of the BOO/BOT "pyramid", then the project evaluation process determines the "slope" of the pyramid's sides. The two most important elements of the project evaluation process are: (a) screening out of projects that are economically unimportant and environmentally unfeasible; and (b) structuring projects to become financially more attractive to the private sector. Given that BOO/BOT projects will require significant levels of effort during the project development and negotiation stages by both the Government of Bangladesh and private investors, it is important that the project screening process be effective at ensuring that only projects with a high potential for success -- financially, technically, economically, legally, and environmentally -- are developed. Therefore, the objectives of the BOO/BOT project screening process should be comprehensive and specific.

13. Taking these issues into consideration, the objectives of the BOO/BOT project screening process for the Government of Bangladesh should be to:

(a) Determine whether there is a viable market for the new service. Is demand currently greater than the available supply? By how much?;

(b) Determine if all raw materials for the project are available and affordable. Determine what materials can be sourced in Bangladesh and what needs to be imported. These can include cement, steel, steel tubing, coal, gas, etc.

(c) Determine if the size of the project's capital cost and operating cost can be reasonably met. These include cost of materials and equipment, as well as human capital costs.

(d) Determine if the current toll or tariff price for use of the existing facility or service is market-based. In some sectors of public services, tariff structures in Bangladesh may need to be reformed and deregulated before private sector participation can be attracted, and;

(e) Determine if the technology for the project is available, tested, and affordable. Projects that rely on untested or expensive technologies increase the project's risks and decrease returns. Technological feasibility for each project should be determined by the project screening process.

14. While project screening mechanisms will remain chiefly in the hands of the Privatization Board and specialists within Bangladesh's line Ministries, the BOO/BOT project structuring process will be the result of inputs from both the private and public sectors. However, it will be important that both groups agree on a common set of objectives for the project structuring process. The following objectives should be aimed for in BOO/BOT project structuring in Bangladesh:

(a) Initiate projects that are economically and developmentally important for the government and structure them to be financially more attractive to the private sector investors and operators. Several projects have been identified in the power, transport, and telecommunication sectors that fit this bill but which will most likely need financial incentives to attract investment.

(b) Produce guidelines for effectively and equitably allocating risks amongst all the parties to a BOO/BOT project. These guidelines could include directives for arrangements and clauses to deal with concession contracts, project completion and turnkey contracts, "take or pay" arrangements and guarantees, and the establishment and operation of escrow accounts.

(c) Ensure that projects deemed economically important and financially attractive are also environmentally sound, as specified by international standards.

15. The projects selected from the previous stages that have met or exceeded the Privatization Board's "litmus test" of project candidacy will be prepared for tendering. In this activity, the unit, working with the appropriate implementing agents, will plan, design, draft, structure, and package tender documents for competitive bidding. The tendering package, should at a minimum, contain the following items: a completed project pre-feasibility study; the Invitation for Bid Proposal (IFB), which describes the standards and specifications established by the Government of Bangladesh so that proposals submitted can be compared and evaluated like to like; financial and economic parameters; a legal package; environmental requirements; a model concession agreement; and finally, criteria for evaluation, which is the principal instrument by which government solicits serious private sector proposals to undertake infrastructure projects.

16. After bids have been received, the Privatization Board and relevant line Ministries will evaluate eligible bids. The unit will need to develop the bid evaluation criterion and standards in compliance with any BOO/BOT Program Guidelines. The major concern for the Government of Bangladesh in the bid evaluation process is to ensure that complete transparency and fairness takes place in all evaluations.

17. After the bid evaluation activity, the Privatization Board and relevant line Ministries will engage the leading bidder or bidders and begin negotiations. Negotiation activities will include not only project award terms and conditions, but, in some cases, will result in the granting of agreements such as Letters of Intent (LOI) or Memoranda of Understanding (MOU) to the successful proponent to either commence construction or to conduct a full feasibility study depending on the status of the project in question. Again, full transparency in the negotiation process is very important to increase confidence in the process.

18. This activity to be undertaken by the Privatization Board addresses one of the most fundamental elements of Bangladesh's economic reform initiative: promoting an awareness of and support for private infrastructure within the bureaucracy, local business sector, and general public. Developing an effective public awareness campaign will focus on undertaking several efforts, through a variety of techniques, to disseminate information about the objectives, rationale, and benefits of BOO/BOT projects in infrastructure development.

Other Country BOO/BOT Experiences

19. Outlined below are BOO/BOT experiences from the Philippines, Pakistan, United Kingdom, Sri Lanka, Malaysia.

The Philippines Example

20. The Philippines has enacted Republic Act 6957, the Build-Operate-Transfer law, and has promulgated its Implementing Rules and Regulations. In January, 1992, in compliance with a requirement for congressional approval of the process, Congress approved a generic list of categories of projects as acceptable for BOT, and provided further that the Coordinating Committee of the Philippine Assistance Program (CCPAP) administer the program. Approval of individual projects was to be performed by the Investment Coordinating Committee of the National Economic and Development Agency (NEDA). Donor agencies, notably USAID, funded projects to provide extensive technical assistance to CCPAP, and provided financing for two teams of engineering firms to develop the engineering feasibility studies, prepare bid and tender documents, and perform other requisite functions to facilitate private sector participation in the program.

21. Even prior to the enactment of the BOT law, there was a modest but highly visible success in BOT in the Philippines. Hopewell Holdings, a Hong Kong firm, proposed to build a small gas turbine power plant in Navotas, a suburb of Manila. This was very welcomed because due to a long history of poor performance and corruption under the former regime, which included an extremely large and costly nuclear power plant on Bataan which was never completed, the entire main island of Luzon had been suffering severe power shortages including "brown outs" (load shedding). The brown-outs seriously affected manufacturing, commerce, and tourism, as well as all major aspects of both private sector and government operations. The Navotas plant was built very quickly and has made a welcome if modest contribution to the power shortages in the Metropolitan Manila area.

22. Despite the conscientious and highly professional work of the CCPAP officials and their consultants, problems have arisen in the Philippine program due to lack of sufficiently centralized implementing and approval authority, which opened the door to the individual line agencies to pursue an agenda that departed from the central government's policies and the public interest. A case in point was a proposed $90 million BOT for a Grains terminal in the port of Manila. Rationale for the project was obvious. Grain and soybean meal cargo on ships making Manila their port of call have to unload by using grab buckets attached to the ship's own gear, a slow and inefficient method of unloading. 30,000 - 40,000 ton carriers that took two to three days to load at their ports of origin were obliged to stay in Manila for an average stay of 23 days to unload using their own on-board gear. These delays had to be paid for in demurrage, and was paid for by the flour millers and other importers, and was a needless cost to the Philippine economy of millions of dollars every year. Feasibility of the terminal had been clearly established in a comprehensive study performed a few years earlier. During a period of

4 months, ending in March, 1992, a team from one of the CCPAP consulting firms prepared the bid documents, financial analyses, legal analyses, draft concession agreements, and all the other bid documents required to bid out the project through international tendering. Several reputable international and local firms expressed keen interest in submitting proposals. The consultants recommended prompt bidding.

23. Although deemed a model project for BOT by the consultants because the project would have earned foreign exchange for its investors (and saved the Philippine economy millions of dollars in unnecessary payments to shipping lines), the Philippines Port Authority (PPA) found numerous ways to delay the project. They first insisted that payment to the prospective investors be made in local currency, pesos, rather than putting the dollars earned from the project into an escrow account for repayment of the capital borrowings. Although the BOT law clearly stated that contracts should be awarded to the proposer whose bids offered the "lowest present value" to users (providing that they fully complied with minimum design and performance standards, plans and specifications) PPA added new criteria which contradicted the guidelines in the basic law. By PPA insisting on peso denomination of payment for a project earning dollars, the private operator was exposed to both inflation and foreign exchange risk, thus forcing bidders to increase their offered tariffs to users.

24. Other actions taken by PPA contrary to the consultant's recommendations, had the effect of diminishing transparency in the bids. The PPA also delayed consideration of the proposed bidding while they held public hearings and encouraged other less than satisfactory solutions to the problem that the BOT grains terminal would have solved. Finally, PPA ignored the consultant's recommendation for prompt bidding, and over a year after all the bidding documents were ready, they still had not advertised the bid, nor had they established a firm date when they would put the project out for tender. Repeated efforts by CCPAP to have them speed up the process have proven unavailing. NEDA's approval was ignored.

25. Following up the early BOO/BOT success in the Navotas "peaking load" plant described above, Philippines has been accomplishing significant progress in other power projects. President Ramos announced on April 24 a new power development program designed to generate an additional 20,700 MW over the next 12 years. Estimated to cost $2.6 million annually, the program has an ambitious target of achieving annual increases in power generation by 10 to 12 percent. Ramos' announcement coincided with the inauguration and commissioning of the first 25 MW unit of the diesel-fired power plant of the Batangas Power Corporation. Another 25 MW was to be commissioned in May, with the final 55 MW of the total 105 MW installation to be completed in June, 1993. This plant is a joint venture between an U.S. firm Enron Power Corp. and the New Saga Power Corp. As mentioned above, the first private participation in the power sector was the 100 MW Hopewell Plant at Navotas. Recently the Export-Import Bank of the U.S. approved support totalling $185 million to cover the sale of $200 million in American goods and services for the Pagbilao 700 MW coal-fired plant.

Hopewell and a U.S. firm, Black and Veatch International are the foreign firms involved in the project.

26. The Philippines experience shows that the central BOO/BOT implementing agency needs to have adequate authority to move projects expeditiously, and if necessary, keep the proponent agency at arms length, having them provide necessary engineering and technical input, but not permit them to interfere in the agreed policy aspects of the program. Based upon the sector (and the government's concern about it) there may be greater or lesser central government intervention in and participation in the BOO/BOT process to assure reasonable and fair treatment to the foreign investors.

The Pakistan Example

27. The World Bank took the lead in arranging an extremely large and complex financing and implementation plan for the Hub Power Project in Pakistan. Because of the sheer size of the total financing requirements (US$1.9 billion), it was necessary to establish a special dedicated fund to be the centerpiece of the financial security package of the project that included the World Bank and the Asian Development Bank, several bi-lateral donors including USAID, export credits from various countries and a major role by the Japan Export-Import Bank, plus considerable participation by various foreign and domestic commercial banks. Normally any BOT power project entails only about 4 major categories of agreements: (a) the power purchase agreement (typically on a take-or-pay basis; (b) the fuel supply agreement; (c) the financing arrangement; and (d) the implementation arrangements, i.e., implementation/construction/ operations. In the HUB project because of its scale and complexity, each of these aspects required many detailed sub-components. As a result, the negotiations for finalizing the project took over 5 years to conclude. Administration of the project and compliance with all the provisions and conditions of all these contracts, will be challenging. The lessons learned is that a country wishing to undertake a public-private partnership program for investment in infrastructure, would probably be best served by initially undertaking modest-sized and relatively simple projects. This would enable the implementing agency, the investors, and the public to have an earlier indication of the beneficial aspects of the program for the country.

The United Kingdom Example

28. In the United Kingdom, one of the major privatizations broke up a nation-wide government monopoly on treatment and distribution of potable water, by putting out to tender ten separate sets of bid invitations for private companies to undertake these services on a regional-specific basis. Privatization of the U.K. Water Board was effected by selling shares in ten independent water companies. This effectively broke up a large "natural monopoly", but by awarding regional franchises to each of the new private companies, the government had to

establish some new regulatory mechanisms to assure reasonable tariffs for the users, and also to protect the environment as well as to provide authority for reconciling competing claims for a limited natural resource, the flow of river waters. The UK government solved this problem by establishing a tariff regulatory agency, the Office of Water Services (OFWAT). The government dealt with natural resource allocation issues (river water access)by establishing a small, separate agency, the National Rivers Authority. All of the 10 private companies are now operating profitably (some of the companies have diversified into new lines of endeavor), tariffs are at acceptable levels, and the access to the national resource - the river system - is regulated. The United Kingdom experience shows especially in privatizing "natural monopolies" or in granting long term concessions to private operators to have exclusive rights to provide infrastructure services, government has an obligation to continue to protect the public interest through exercise of its inherent regulatory function. But this must be done with discretion, so that adverse effect on the private sector investment climate is avoided.

The Sri Lanka Experience

29. Sri Lanka adopted a different approach to BOO/BOT which perhaps is more appropriate for a smaller country which still wishes to invite private/public partnerships across a variety of differing infrastructure sectors. Sri Lanka has established a dedicated "Secretariat for Infrastructure Development and Investment" (SIDI)in its Ministry of Policy Planning and Implementation. The Secretariat is headed by a Director General, who reports directly to the senior most civil servant in the country, who serves as the Permanent Secretary of both the Planning and Finance Ministries. A professional staff of engineers, financial analysts, and experts in various technical disciplines, have centralized the process of interacting with the line ministries, the head of government and cabinet, and through this mechanism assure that priority projects that are found to be suitable for private investment, are prepared and presented for public tender. SIDI has issued "Guidelines for BOO/BOT Projects" which clearly set forth the government policy and the main characteristics of the program. These Guidelines are provided to the public and the international investment community. SIDI has established procedures for receiving and acting upon unsolicited proposals. Although the Sri Lankan BOO/BOT program was not initiated until early 1993, within a few months of inception, SIDI already has a number of major projects either already under negotiation with prospective investors, or being prepared for tender. Numbers of unsolicited proposals have already been received. Included are major projects in energy, ports, and water supply. Proposers who submit apparently viable projects are given letters of intent, according them intellectual property protection for the proprietary aspects of the proposals. These letters of intent are of limited duration, but are long enough for the proposer to - on an assured exclusive basis - come up with the detailed technical and financial feasibility studies which could provide the government with the basis of awarding a longer-term concession agreement. Intensive technical assistance for the program is provided by two resident advisors, one specializing in financial packaging, while short term consultants representing various engineering, financial and marketing expertise, are brought in on

assignment as required. The Sri Lanka BOO/BOT Secretariat model is flexible, fast responding, and highly professional, presenting the country as an attractive site for private investors. The success of BOO/BOT is being enhanced by the on-going privatization, in which major government SOEs are being divested, along the program of the Board of Investment, to make the country competitive in the global marketplace.

The Malaysian Experience

30. Malaysia has been energetically conducting privatization using virtually every modality employed in divestiture programs, and has similarly carried out BOO/BOT on a case by case basis. Malaysia's Port Klang has been an example of mixing and merging various modalities of privatization and encouraging new private sector investment. The first elements privatized were the greatest revenue earners, the container terminal and warehousing functions. As these become highly profitable operations under their private owners, it became possible for some of the more labor intensive stevedoring operations to be privatized later on. In BOO/BOT, Malaysia started with assured revenue earners such has the North South Highway project, and once that was seen to be successful, BOO/BOT was able to branch out into less obvious areas such as the Ipoh Water Supply. Keeping a balance between privatization of existing government facilities and introduction of new investment through BOO/BOT is one of the best ways for expanding the range and domain of private sector interest and success in undertaking activities formerly believed to be exclusively the sphere of government. Malaysia has employed voucher systems, worker and management leveraged buy-outs; selling off of shares in the capital market, and other ways of diminishing the role of government and expanding the role of the private sector in the operation of the economy.

INTERNATIONAL REVIEW OF SELECTED COUNTRIES' INSTITUTIONAL ARRANGEMENTS FOR PRIVATIZATION

	Argentina	Chile	Malaysia	Pakistan	Mexico
Location	i) Special Unit within Ministry of Economy monitors and participates in decision making; ii) Privatization Commission, a technical unit charged with implementing transactions, is established for each enterprise to be divested. Commission is comprised of special unit representatives, auditors, company management and local government officials.	i) Special operational unit, Normalization Managership, within state owned holding company, CORFO, manages divestiture process. ii) CORFO Board of Directors is principal decision making body.	i) Economic Planning Unit, central operational body directly under Prime Minister reports to Inter-departmental Committee on Privatization. ii) The Inter-departmental Committee on Privatization is primary decision maker.	i) Privatization Commission, autonomous operational unit reports to Cabinet Committee. ii) Cabinet Committee is primary decision maker although all Committee decisions are reviewed by Prime Minister. iii) Experts Advisory Cell plays advisory role only.	i) Finance Secretariat and operational unit within Secretariat coordinate and supervise sale of SOE's. ii) Mexican commercial Bank, supervised by operational unit, acts as sales agent for government and carries out the divestiture. iii) Inter-ministerial commission approves all decisions.
Status of Chairperson	Locally appointed chairperson of Privatization Commission exercises large degree of authority and reports to respective enterprise chief executive.	Board of CORFO is comprised of Minister of Economy, Development and Reconstruction, Minister of Finance, CORFO's Executive Vice President and Director of the National Planification Office, both with rank of Minister, and representative of President of Chile. CORFO's Board has final authority to make all decisions.	Economic Planning Unit Director General, a civil servant, has direct access to Prime Minister and large degree of autonomy in execution of privatization plan.	Privatization Commission Chair is cabinet level position responsible to Cabinet Committee, with direct access to Prime Minister.	Coordinator General of operational unit has direct access to Finance Secretary and President and large degree of autonomy in execution of privatization plan.

	Argentina	Chile	Malaysia	Pakistan	Mexico
Degree of Autonomy	Parliamentary approval required for most decisions to divest.	i) The Board has final authority over all privatization decisions. ii) Normalization Managership, primarily technical unit, has large degree of autonomy in executing privatization plan. iii) Ministry of Finance supervises budget.	i) Economic Planning Unit negotiates with buyer, Ministry of Finance however has large input. ii) Inter-departmental Committee on Privatization gives final approval for all decisions.	i) Funding received from government budget. ii) Privatization Commission determines reference price although Cabinet Committee must approve all decisions.	Inter-ministerial Commission exercises final authority to decide divestiture method and analyze proposals.
Link with other Ministries	Ministry of Economy plays central coordinating role. Ministry of Defense enters process when defense industries under consideration.	Ministries of Finance, Economy, Development and Reconstruction participate as Board members. Ministry of Finance notifies which assets can be sold and determines how personnel can be reduced and provides advice on financing sources.	i) Relevant sector ministry sits on Inter-departmental Committee on Privatization. ii) Economic Planning Unit seeks advice from the Ministry of Finance. iii) Sector ministry is used as source of staff for Economic Planning Unit.	i) Experts Advisory Cell, a privatization advisory unit within the Ministry of Production, acts as source of staff and consultants. Cell controls privatization information database for Privatization Commission. ii) Ministry of Finance plays semi-formal yet influential role.	i) Finance Secretariat takes administrative control of the selected enterprise upon decision to divest. ii) Relevant sector ministry sits on inter ministerial commission.
Private Sector Role and Participation	Consultants contracted on case by case basis according to World Bank guidelines. Consultants exercise large degree of independence in implementing pre-approved process but report to sector ministry.	Private stock brokerage companies are contracted to carry out divestiture, including evaluation.	i) In case of private initiated privatization, private company which proposes privatization conducts feasibility studies. ii) When Government initiates privatization, private consultants are contracted.	Private consultants are contracted on case by case basis to evaluate enterprises and present recommendations to Privatization Commission.	International financial groups and investment banks are contracted, particularly in the case of TELMEX.

	Argentina	Chile	Malaysia	Pakistan	Mexico
Transparency and Accountability	i) Argentina's legal system requires public agency, BANADE, the Argentine development bank, or a separate public auditing agency to carry out evaluations. ii) Argentine press announces bidders. iii) Database provides bidders equal access to information. iv) Public appeal is available through court system. v) Non-profit consumer association monitors public complaints on telecom.	i) Optimal level of transparency achieved when shares sold on stock market. ii) Public appeal is available through court system. iii) Revenues generated and number of firms to be privatized are explicitly announced to the public.	i) Potential conflict of interest between private sector who performs evaluation and later participate as member of bidding consortium. ii) Number of firms and revenues generated are explicitly announced. iii) Media announces enterprise to be divested and results, however no media involvement occurs during the divestiture process.	i) No external monitoring by international agency. ii) Negotiations carried out by chair or secretary of P.ivatization Commission. iii) Public appeal is available through court system.	i) Set of rules announced and not altered. ii) Necessity of bargaining is decreased because legal contract is drawn and released to bidders to review and modify prior to bidding.
Internal Structure		CORFO's Board exercises flexibility in deciding the vehicle of privatization.	i) Economic Planning Unit allows great deal of flexibility in choosing method for privatization. ii) All staff of Economic Planning Unit are civil servants.	i) Privatization Commission exercises great deal of flexibility in determining method of sale, although auction used in most cases.	Operational unit staff are outside civil service structure.

	Argentina	Chile	Malaysia	Pakistan	Mexico
Other Steps to Increase Chance of Success	i) Convertibility Plan established fixed parity between US dollar and local currency to guarantee peso's convertibility. ii) International technical operators pre-qualify bidders on capability. iii) Excess staffing was reduced parallel to privatization. iv) Promotional campaign with UNDP and World Bank assistance.	Laws restricting investment of pension funds limited concentration of ownership.	Training offered to staff involved in carrying out the privatization process.	i) Relatively free press monitors privatization process. ii) Training provided for Privatization Commission staff and managers of public and newly privatized enterprises.	i) Workers may exercise right to bid and match best offer with financing assistance from Government. ii) Enterprise is separated from sector ministry and Finance Secretariat assumes administrative control. iii) Broad selection criteria determined all enterprises were to be divested and sector ministry must make case not to divest in order to retain.

TECHNICAL ASSISTANCE FOR THE PRIVATIZATION BOARD

1. For the privatization program in Bangladesh, technical assistance will be required to strengthen the Privatization Board and implement the strategy and specific privatization proposals developed by Privatization Board. This proposal is focused on the development of institutional capacity of the Privatization Board. More exact requirements of overall technical assistance are dependent upon the scope and pace of the privatization program and selection of industries. Technical assistance would consist of general institutional and logistical support to the Privatization Board. This support should help the Privatization Board to implement and monitor the privatization program.

2. The proposed technical assistance would also provide consultant expertise to the Privatization Board. More specifically, the Privatization Board would assist in the development of a detailed plan of action for implementing the divestiture of identified public enterprises which is expected to include (a) the establishment of transparent privatization methodologies; (b) logical sequencing of privatization; (c) resolution of impediments; (d) public and investor relations; and (e) the development of interim management procedures.

3. Specifically, technical assistance will finance the following services, including relevant logistical and operational support for the Privatization Board: seven long term professional staff - privatization expert, financial analysts, environmental analyst, public relations expert, economist and lawyer, together with counterparts as well as relevant technical and support staff. Sector specialists would be employed on a part-time basis. The major functions of the long term professional Privatization Board staff will be to: (a) finalize the design of the privatization program; (b) select suitable enterprises and initiate privatization; (c) coordinate and supervise the process of divestiture, contract and coordinate the work of short term consultants and international firms; (d) negotiate and close the transactions; and (e) monitor and coordinate developments in the enabling environment.

4. In the case of Bangladesh, most divestitures will be carried out through public tender. The required technical assistance needs should reflect the inherent simplicity which this method entails. However, in the case of more complex industries or enterprises, preparatory and implementation tasks may need to be contracted out to international firms with experience in privatization. The firms would be expected to utilize local consultants at every step to build up local capabilities for carrying out privatization. There should evolve a sensitive blending of local and foreign consultants. If the privatizations are seen to be too foreign dominated it will lead to considerable local opposition.

5. Specific technical assistance is proposed for the Jute Sector privatization whereby two teams of international and local consultants will take responsibility for privatizing nine mills each over a period of several years. This technical assistance includes the provision of office equipment and furniture and significant local support. The teams make use of local consultants.

SELECTED FINANCIAL DATA ON SOEs

This Annex contains the following Tables:

Table 1: Ranking of Public Enterprisess 1991 By Operating Revenue (Taka Million)

CORP	UNIT	OPERATING REVENUE
BPC	Petroleum Corp	23,568.5
BCIC	Chemical Industries Corp.	12,750.1
BPDB	Power Development Board	11,279.7
BBC	Biman Corp	5,746.1
BJMC	Jute Mills Corp.	5,287.6
BTMC	Textile Mills Corp	4,656.0
BSFIC	Sugar & Food Industries Corp.	4,504.9
BOGMC	Oil, Gas & Minerals Corp.	2,890.0
BSC	Shipping Corp.	1,809.2
CPA	Chittagong Port Authority	1,529.7
TCB	Trading Corp. of Bangladesh	1,314.5
BJC	Jute Corp.	1,148.0
BSEC	Steel & Engineering Corp.	703.2
BPRC	Parjaton Corp.	502.9
BCAA	Civil Aviation Authority	497.0
BIWTC	Inland Water Transport Corp.	424.1
DWASA	Dhaka Water Supply & Sewerage Authority	395.6
BFFWT	Freedom Fighters Welfare Trust	390.0
MPA	Mongla Port Authority	334.1
BFIDC	Forest Industries Development Corp.	322.2
BRTC	Road Transport Corp.	195.9
BADC	Agricultural Development Corp	193.8
REb	Rural Electrification Board	138.8
BFDC	Film Development Corp.	125.5
CWASA	Chittagong Water Supply & Sewerage Auth.	120.2
BSCIC	Small & Cottage Industries Corp.	113.0
BFDC	Fisheries Development Corp.	105.6
	Tea Board	46.7
CDA	Chittagong Development Authority	41.3
BFIDC	Forest Industries Development Corp.	27.8
KDA	Khulna Development Authority	21.1
RAJUK	Rajdhani Unanayan Kartipakhya	13.9
RDA	Rajshahi Development Authority	11.7

Table 2: Ranking of SOEs
By Net Fixed Assets (Taka Million (1990/91)

UNIT	NET FIXED ASSETS
Power Development Board	81,121.0
Chemical Industries Corp.	30,514.8
Oil, Gas & Minerals Corp.	11,807.5
Steel & Engineering Corp.	6,691.8
Biman Corp.	5,142.1
Shipping Corp.	3,972.0
Textile Mills Corp.	3,543.1
Chittagong Port Authority	2,907.8
Rajdhani Unanayan Kartipakhya	2,599.1
Civil Aviation Authority	2,464.3
Dhaka Water Supply & Sewerage Auth	2,265.0
Mongla Port Authority	2,065.0
Inland Water Transport Corp.	1,724.6
Sugar & Food Industries Corp.	1,656.9
Chittagong Water Supply & Sewerage Auth	1,182.2
Jute Mills Corp.	898.3
Petroleum Corp.	878.3
Freedom Fighters Welfare Trust	571.6
Fisheries Development Corp.	480.9
Road Transport Corp.	430.9
Chittagong Development Authority	338.4
Forest Industries Development Corp.	253.9
Parjaton Corp.	186.4
Film Development Corporation	156.7
Small & Cottage Industries Corp.	153.6
Agricultural Development Corp.	147.7
Rural Electrification Board	120.3
Trading Corp. of Bangladesh	97.8
Khulna Development Authority	73.5
Jute Corp.	60.2
Forest Industries Development Corp.	30.4
Tea Board	25.2
Sericulture Board	3.7
Handloom Board	2.5
Rajshahi Development Authority	2.1

Table 3: Key Financial Data for the period 1989-1991 for all SOEs

Manufacturing/Industry		SIZE/IMPORTANCE Sales 1988-89	Sales 1989-90	Sales 1990-91	SIZE/IMPORTANCE Total Assets 1988-89	Total Assets 1989-90	Total Assets 1990-91	SIZE/IMPORTANCE Employ 1988-89	Employ 1989-90	Employ 1990-91	P/L 1988-89	P/L 1989-90	P/L 1990-91	DEBT Long-term (most recent)
BTMC - Bangladesh Textile Mills Corp.														
BTMC	Ahmed Bawany Textile Mills Ltd	238.51	219.42	212.01	221.03	180.49	196.92	2712	2637	2649	11.68	11.74	-5.15	41.43
BTMC	Amin Textiles Ltd	71.39	128.29	244.57	139.48	469.27	426.22	na	1879	1852	3.94	-5.42	-8.00	180.89
BTMC	Bangladesh Textile Mills Ltd	96.81	100.47	95.99	87.81	47.81	35.96	1586	1441	1407	-7.16	-13.95	-26.61	53.77
BTMC	Barisal Textile Mills	89.46	111.69	89.02	107.26	122.36	93.69	1013	1219	1180	-13.68	-14.09	-31.53	13.71
BTMC	Bengal Textile Mills Ltd	76.46	219.91	246.11	141.13	447.20	426.17	na	1702	1713	3.05	-0.46	-29.60	210.40
BTMC	Chisty Textile Mills Ltd	76.62	84.06	85.85	43.48	46.41	44.95	743	765	765	8.81	7.41	-3.46	14.16
BTMC	Chittaranjan Cotton Mills Ltd	119.08	121.91	118.45	91.07	31.98	16.30	1638	1703	1761	0.55	-4.12	-19.90	35.94
BTMC	Darwani Textile Mills	140.73	120.37	121.75	170.54	164.03	171.80	918	1007	977	32.96	20.69	13.31	8.37
BTMC	Dhaka Cotton Mills Ltd	65.44	74.68	68.79	61.81	27.86	18.61	1479	1276	1268	-8.50	-12.58	-22.21	39.54
BTMC	Dinajpur Textile Mills	103.77	117.98	118.71	95.78	77.40	69.29	984	1088	1150	6.23	9.10	0.21	6.44
BTMC	Dost Textile Mills Ltd	68.18	68.80	77.38	63.26	63.29	55.56	742	770	765	8.90	-1.86	-9.45	33.85
BTMC	Fine Cotton Mills Ltd	51.12	31.69	55.89	53.48	37.99	38.59	608	607	576	1.65	-4.84	-3.75	0.00
BTMC	Fine Cotton Mills - II	na	136.60	159.94	na	173.26	158.44	na	1899	1611	na	-8.89	-23.31	48.85
BTMC	Khulna Textile Mills Ltd	67.13	73.70	66.60	45.19	21.67	20.08	1084	1046	1007	-6.04	-6.55	-17.78	0.00
BTMC	Kishoreganj Textile Mills	117.59	109.95	129.70	112.77	118.64	76.48	1187	1230	1252	-2.66	-4.44	-19.45	3.15
BTMC	Kohinoor Spinning Mills	72.83	92.51	95.19	97.96	93.53	79.68	1031	1052	1059	-12.49	-10.29	-19.87	13.75
BTMC	Kokil Textile Mills (ltd?)	59.15	66.91	56.24	47.94	66.31	56.61	767	917	975	0.68	1.40	-6.39	34.31
BTMC	Kurigram Textile Mills	72.12	61.12	73.82	155.28	188.02	164.55	578	580	575	-10.27	-16.76	-23.13	150.68
BTMC	Luxmi Narayan Textile Mills Ltd	104.79	108.69	102.68	94.87	40.77	30.88	1723	1723	1649	1.25	-6.19	-18.83	23.54
BTMC	Madaripur Textile Mills	72.79	79.25	73.70	168.94	152.46	144.58	946	950	954	-22.88	-18.32	-26.91	38.36
BTMC	Magura Textile Mills	92.66	108.43	86.84	258.16	261.79	230.19	965	1125	1101	-29.45	-27.42	-39.80	120.73
BTMC	Meghna Textile Mills	110.10	131.26	114.42	237.19	254.37	273.51	1325	1807	1834	-9.45	-23.80	-43.74	123.69
BTMC	National Cotton Mills Ltd	74.37	68.62	78.45	133.13	101.27	91.29	923	977	1008	-6.69	-3.38	-15.56	11.66
BTMC	Noakhali Textile Mills	92.26	79.25	89.18	189.90	188.83	168.07	877	924	926	-15.50	-20.47	-26.29	33.71
BTMC	Olympia Textile Mills Ltd	178.43	197.48	213.19	189.52	155.81	118.73	3096	3126	3111	-18.80	-16.30	-31.99	53.61
BTMC	Orient Textile Mills Ltd	56.34	54.07	58.92	22.92	5.36	5.77	709	746	778	1.67	-2.39	-5.81	0.00
BTMC	Quaderia Textile Mills Ltd	74.23	79.17	125.05	121.07	172.62	158.06	876	911	913	3.57	0.64	-4.64	102.00
BTMC	Rajshahi Textile Mills	78.11	88.20	85.95	91.74	83.17	78.12	996	1080	1070	-3.19	-4.99	-12.91	16.99
BTMC	Rangamati Textile Mills Ltd	86.93	98.48	93.13	112.95	100.35	102.79	548	621	611	-0.85	1.60	-5.20	18.70
BTMC	R.R. Textile Mills Ltd	147.89	148.26	154.47	165.37	201.46	197.66	na	1658	1683	23.82	1.75	-17.39	48.46
BTMC	Satrang Textile Mills Ltd	71.34	78.16	59.95	66.53	44.33	57.14	734	754	805	7.20	-1.60	-15.87	24.69
BTMC	Sharmin Textile Mills Ltd	68.02	78.26	80.62	99.02	88.59	82.46	1177	1240	1280	4.53	-15.83	-27.97	70.45
BTMC	Sunderban Textile Mills	165.14	189.36	188.01	513.27	468.94	458.67	1540	1582	1548	53.21	32.98	15.36	104.86
BTMC	Sylhet Textile Mills	93.93	102.35	96.65	171.82	231.57	243.19	936	899	968	-10.26	-14.40	-20.89	124.27
BTMC	Tangail Cotton Mills Ltd	108.35	120.50	87.92	165.49	162.68	181.06	1202	1373	1359	2.62	-2.48	-27.16	62.65
BTMC	Zeenat Textile Mills Ltd	153.37	155.95	168.77	118.73	73.91	65.86	2007	2131	2339	0.37	-3.36	-22.71	45.22
BTMC	Karilia Silk Mills Ltd	2.82	4.67	6.04	58.53	49.55	44.52	225	164	171	-6.54	-5.34	-6.48	22.78
BTMC	Pylon Industries Ltd	125.16	82.03	75.20	131.02	123.26	109.82	359	344	358	23.66	5.22	-2.90	0.00
BTMC	Valika Woollen Mills Co. (CTG) (Ltd?)	44.72	49.78	32.87	74.98	51.17	58.86	260	277	261	4.45	6.82	-3.93	0.0[illegible]
BTMC	Zofine Fabrics (Ltd?)	3.03	3.35	3.31	16.05	10.49	12.18	61	61	61	-2.30	-0.80	-0.69	7.44
BTMC	Engineering Industries Ltd	3.08	4.35	4.87	6.19	7.93	5.30	84	95	102	0.01	0.27	0.25	2.49

Manufacturing/Industry		SIZE/IMPORTANCE Sales 1988-89	Sales 1989-90	Sales 1990-91	SIZE/IMPORTANCE Total Assets 1988-89	Total Assets 1989-90	Total Assets 1990-91	SIZE/IMPORTANCE Employ 1988-89	Employ 1989-90	Employ 1990-91	P/L 1988-89	P/L 1989-90	P/L 1990-91	DEBT Long-term (most recent)
BSEC - Steel & Engineering Corp.														
BSEC	Atlas Bangladesh Ltd	na	389.10	391.49	na	195.29	198.71	na	238	245	na	52.84	23.6	24.78
BSEC	Bangladesh Blade Factory Ltd	na	28.77	38.82	na	266.69	269.76	na	148	143	na	0.62	0.64	145.84
BSEC	Bangladesh Can Company Ltd	na	53.66	34.67	na	46.02	43.95	na	281	279	na	1.5	-9.95	10.58
BSEC	Bangladesh Cycle Industries Ltd	na	4.30	8.92	na	14.22	15.79	na	121	119	na	-8.86	-13.35	2.00
BSEC	Bangladesh Diesel Plant Ltd	na	105.20	68.24	na	285.61	322.47	na	381	376	na	-0.52	-7.44	118.89
BSEC	Bangladesh Machine Tools Factory Ltd	na	184.29	121.80	na	2156.76	2116.27	na	1573	1560	na	-90.59	-141.82	1646.43
BSEC	Chittagong Dry Dock Ltd	na	106.22	127.41	na	1957.34	2014.97	na	581	572	na	-21.86	-34.4	1495.71
BSEC	Chittagong Steel Mills Ltd	na	1586.10	1167.60	na	4347.96	4504.43	na	3571	3533	na	-259.7	-499.33	2285.48
BSEC	Dhaka Steel Works Ltd	na	107.31	101.73	na	50.23	52.65	na	373	327	na	-21.97	-18.72	7.43
BSEC	Dockyard & Engineering Works Ltd	na	112.82	123.62	na	194.21	217.32	na	864	835	na	-43.3	-47.51	60.76
BSEC	Eastern Cables Ltd	na	576.60	376.30	na	1034.83	862.36	na	564	564	na	50.6	17.7	152.60
BSEC	Eastern Tubes Ltd	na	99.00	99.60	na	196.27	233.60	na	207	222	na	31.35	33.7	44.09
BSEC	Gazi Wires Ltd	na	105.10	87.04	na	129.07	167.07	na	257	245	na	6.6	2.62	6.28
BSEC	General Electric Manufacturing Co. Ltd	na	221.40	142.72	na	972.23	957.20	na	858	847	na	-31.96	-47.78	475.64
BSEC	Khulna Shipyard Ltd	na	104.80	69.67	na	193.87	229.41	na	1044	1038	na	-23.09	-30.41	45.91
BSEC	Meher Industries Ltd	na	107.30	52.10	na	109.88	111.77	na	336	337	na	2.62	-12.06	4.96
BSEC	Metalex Corp Ltd	na	73.10	51.38	na	102.16	6851.27	na	347	338	na	-15.7	-17.49	40.81
BSEC	National Tubes Ltd	na	230.80	138.20	na	633.17	817.47	na	618	610	na	8.9	-23.78	40.81
BSEC	Pragoti Industries Ltd	na	970.71	317.98	na	785.70	895.94	na	849	842	na	139.33	4.7	29.19
BSFIC - Bangladesh Sugar & Foods Industries Corporation														
BSFIC	Carew & Co. Ltd	na	322.56	356.33	na	421.43	576.09	na	2994	3545	na	4.69	-42.22	117.03
BSFIC	Deshbandhu Sugar Mills Ltd	na	13.63	63.20	na	197.73	167.47	na	459	450	na	-19.17	-33.29	156.67
BSFIC	Faridpur Sugar Mills Ltd	na	263.19	519.93	na	247.80	258.41	na	1607	1568	na	36.59	19.32	102.84
BSFIC	Jaipurhat Sugar Mills Ltd	na	345.47	466.41	na	308.28	417.01	na	2018	2023	na	43.96	-12.09	12.19
BSFIC	Kaliachapra Sugar Mills Ltd	na	47.28	192.45	na	130.02	112.06	na	1398	1395	na	-40.96	-50.38	53.27
BSFIC	Kustia Sugar Mills Ltd	na	308.27	254.98	na	326.30	483.00	na	1785	1790	na	21.52	-28.2	68.91
BSFIC	Mobarakganj Sugar Mills Ltd	na	230.18	321.31	na	344.54	550.41	na	1774	1700	na	13.56	-5.38	99.76
BSFIC	Natore Sugar Mills Ltd	na	282.11	356.83	na	571.21	697.41	na	1762	1783	na	48.88	50.3	79.12
BSFIC	North Bengal Sugar Mills Ltd	na	365.25	419.83	na	424.93	570.00	na	4039	2832	na	72.39	48.69	154.41
BSFIC	Panchagarh Sugar Mills Ltd	na	119.10	115.55	na	207.30	333.74	na	1479	1530	na	-12.76	-13.23	34.48
BSFIC	Rajshahi Sugar Mills Ltd	na	308.99	572.15	na	390.24	507.89	na	2271	2169	na	38.59	-22.7	286.37
BSFIC	Rangpur Sugar Mills Ltd	na	190.37	234.44	na	410.44	552.39	na	1758	2004	na	21.37	-30.16	152.45
BSFIC	Setabganj Sugar Mills Ltd	na	146.95	136.65	na	341.46	453.39	na	1415	1526	na	0.07	-9.75	93.07
BSFIC	Shyampur Sugar Mills Ltd	na	190.54	197.80	na	413.60	695.09	na	1465	1464	na	-13.42	-22.68	148.16
BSFIC	Thakurgaon Sugar Mills Ltd	na	136.37	155.56	na	339.06	554.58	na	3099	1930	na	-36.85	-12.17	152.12
BSFIC	Zeal-Bangla Sugar Mills Ltd	na	220.57	526.77	na	366.76	302.05	na	1440	1540	na	40.08	-1.1	94.44
BSFIC	Amin Agencies Ltd	na	39.87	66.52	na	18.23	17.99	na	80	74	na	-6.62	-4.89	0.00
BSFIC	Can Making & Tin Printing Plant Ltd	na	na	na	na	na	na	na	na	na	na	na	na	na
BSFIC	Dhaka Vegetable Oil Industries Ltd	na	822.10	934.15	na	592.25	569.66	na	586	573	na	25.98	9.01	200.48
BSFIC	Renwick, Jajneswar & Co. Ltd	na	36.48	52.13	na	173.51	201.41	na	423	427	na	0.54	6.45	125.56

		SIZE/IMPORTANCE			SIZE/IMPORTANCE			SIZE/IMPORTANCE						DEBT
		Sales 1988-89	Sales 1989-90	Sales 1990-91	Total Assets 1988-89	Total Assets 1989-90	Total Assets 1990-91	Employ 1988-89	Employ 1989-90	Employ 1990-91	P/L 1988-89	P/L 1989-90	P/L 1990-91	Long-term (most recent)
Manufacturing/Industry														
BCIC - Bangladesh Chemical Industries Corp														
BCIC	Bangladesh Insulator and Sanitoryware Factory Ltd	161.87	197.14	185.25	449.19	420.01	425.31	na	na	1089	22.82	31.03	32.53	27.14
BCIC	Chhatak Cement Co. Ltd	321.60	367.30	445.56	854.74	1247.71	1107.49	na	na	1110	-39.90	22.36	48.52	577.45
BCIC	Chittagong cement Clinker & Grinding Co. Ltd	457.29	529.63	434.90	441.43	330.19	378.37	na	na	369	90.50	77.11	74.13	125.20
BCIC	Chittagong Chemical Complex Ltd	178.78	189.91	178.67	310.49	323.31	310.79	na	na	848	1.39	1.26	-19.35	60.79
BCIC	Chittagong Urea Fertilizer Ltd	1786.25	2250.94	2177.39	16736.23	16897.34	16781.86	na	na	1026	-231.71	-47.88	-122.79	11412.99
BCIC	Eagle Box & Carton Manufacturing Co. Ltd	59.69	69.60	69.40	98.28	98.60	108.28	na	na	291	0.67	0.46	1.20	52.53
BCIC	Karnaphuli Paper Mills Ltd	1006.55	1220.99	1108.57	1258.54	1249.18	1197.72	na	na	4120	3.39	47.78	11.79	451.56
BCIC	Karnaphuli Rayon & Chemicals Ltd	420.44	447.76	461.39	1924.76	2017.74	2023.81	na	na	2602	-136.63	-73.29	67.11	1333.01
BCIC	Khulna Hard Board Mills Ltd	50.18	58.97	63.09	52.79	55.29	57.72	na	na	261	0.73	3.26	3.23	0.00
BCIC	Khulna Newsprint Mills Ltd	864.71	936.27	986.47	999.63	1010.08	980.97	na	na	2954	-23.05	-76.16	-149.07	385.05
BCIC	Kohinoor Battery Manufacturing Ltd	73.12	130.91	118.97	265.57	118.88	108.61	na	na	715	-79.54	-36.17	-53.33	0.00
BCIC	Kohinoor Chemical Co. Ltd	527.55	442.12	372.76	567.15	525.66	386.96	na	na	1111	7.10	5.03	-66.61	150.72
BCIC	Lira Industrial Enterprises Ltd	57.89	78.83	50.99	38.28	70.31	92.76	na	na	126	5.00	14.57	4.63	0.00
BCIC	Natural Gas Fertilizer Factory Ltd	558.09	390.82	535.04	2072.34	2165.15	??	na	na	1209	62.61	2.91	-54.60	656.57
BCIC	North Bengal Paper Mills Ltd	291.23	411.89	382.14	611.34	705.84	671.68	na	na	1112	-137.23	-66.92	-120.02	261.00
BCIC	Polash Urea Fertilizer Factory Ltd	532.67	432.79	580.60	1864.98	1749.54	1719.17	na	na	908	83.49	27.69	-25.31	796.17
BCIC	Sylhet Pulp & Paper Mills Ltd	429.16	525.65	403.73	1161.16	1097.01	1184.38	na	na	1009	14.08	34.36	-16.18	412.33
BCIC	TSP Complex Ltd	1010.64	911.00	968.10	1454.72	1434.71	1487.36	na	na	947	11.72	12.6	-68.54	853.47
BCIC	Ujala Match Factory	106.24	78.11	110.22	43.36	53.80	28.33	na	na	1680	2.07	0.61	-28.09	0.00
BCIC	Urea Fertilizer Factory Ltd	1387.18	926.84	1135.63	5203.17	5414.62	5730.05	na	na	1507	276.87	89.87	38.63	2840.12
BCIC	Usmania Glass Sheet Factory Ltd	84.76	120.19	116.40	246.27	245.07	285.89	na	na	266	10.24	21.86	21.21	132.07
BCIC	Zia Fertilizer Co. Ltd	1898.39	1511.21	1850.50	12952.20	12376.57	10318.92	na	na	1235	482.13	466.44	243.27	4583.96
BFIDC - Bangladesh Forest Industries Development Corporation		434.58	412.31	333.93	2153.72	2181.80	2191.18	na	na	na	16.68	-44.7	-62.07	
BFIDC	Cabinet Manufacturing Unit (CTG)	8.81	12.32	8.00	15.41	16.49	na	na	101	98	-1.89	0.04	-1.75	na
BFIDC	Cabinet Manufacturing Unit (Dhaka)	11.93	9.66	10.03	15.37	13.55	na	na	148	142	-1	-3.95	0.22	na
BFIDC	Cabinet Manufacturing Unit (Khulna)	5.97	9.04	9.20	13.47	12.62	na	na	63	69	-0.68	-0.55	0.28	na
BFIDC	Chittagong Board Mill	6.28	5.60	3.57	30.24	30.47	na	na	43	42	0.78	-1.03	-3.39	na
BFIDC	Eastern Wood Works	14.39	11.18	6.99	18.67	18.59	na	na	155	139	0.11	-0.76	-1.07	na
BFIDC	Fidco Furniture Complex	16.04	9.04	10.12	27.07	27.43	na	na	169	162	-0.32	-4.12	-3.72	na
BFIDC	Karnaphuli Timber Extraction UNit	46.68	74.26	29.32	375.35	346.59	na	na	637	555	1.94	-18.66	-27.76	na
BFIDC	Lumber Processing Complex	42.28	54.16	56.24	135.18	146.70	na	na	180	153	0.4	0.9	-0.26	na
BFIDC	Particle Board & Veneering Plant	25.59	28.65	19.52	120.63	122.33	na	na	208	179	-11.26	-6.72	-11.53	na
BFIDC	Procurement & Sales Organization	56.70	78.34	37.26	72.98	84.19	na	na	67	58	7.01	1.32	-0.96	na
BFIDC	Shangoo Matamuhari Timber Extraction Unit	22.60	8.92	6.37	31.25	31.21	na	na	56	3566	5.79	-0.05	-1.99	na
BFIDC	Shangoo Valley Timber Industries	28.44	27.75	20.96	23.10	24.17	na	na	258	199	1.16	0.18	-3.3	na
BFIDC	Wood Treating Unit (CTG)	49.65	20.88	15.93	86.97	138.09	na	na	221	200	9.89	-7.23	-11.04	na
BFIDC	Wood Treating Unit (Khulna)	29.55	23.90	17.24	92.73	94.49	na	na	108	106	3.9	2.46	1.16	na
Power, Gas, Water														
BOGMC - Bangladesh Oil, Gas & Minerals Corp									4397	4732				
BOGMC	Bangladesh Gas Fields Co.	3154.95	4806.24	5149.21	7511.81	8057.92	8140.76	na	na	na	-10.46	-119.63	117.13	1545.06
BOGMC	Jalalabad Gas Trans. & Dist. System	547.24	507.26	573.74	896.04	827.54	944.66	na	na	na	41.81	20.08	64.52	167.96
BOGMC	Titas Gas Trans. & Distr. System	na	4362.7	5321.05	4348.77	5545.91	7754.2	na	2140	2325	20.15	310.83	728.13	3795.28
BOGMC	Bakhrabad Gas Systems	1510.65	1816.61	2190.3	8323.99	8404.46	8388.37	na	na	na	-203.2	-278.24	-187.48	4235.38
BOGMC	Rupantarita Prakritik Gas Co.	na	na	na	na	55.97	80.74	na	42	37	na	-1.25	6.68	62.21
BOGMC	Bangladesh Petrol. Exploration Co.	na	na	na	na	5262.91	5495.68	na	1446	1502	na	-51.85	-35.2	2570.29
BOGMC	Sylhet Gas Fields Limited	155.64	163.15	260.18	1222.03	1141.81	1242.99	na	na	na	64.24	68.64	145.38	359.91
BOGMC	Compressed Natural Gas Co.Ltd.	0.11	0.26	na	78.76	79.77	na	na	na	na	-2.44	-1.52	na	51.48
BPDB	Power Development Board	8133.14	10067.21	11279.66	87495.17	98370.42	########	na	29446	29140	-362.94	-3375.07	-2801.61	41163.49
CWASA	Cittagong Water Supply & Sewer Auth.	94.45	107.67	128.15	1518.65	1453.22	1433.29	na	837	837	-31.33	-63.33	-63.77	824.56
DWASA	Dhaka Water Supply & Sewer Authority	377.10	400.31	447.53	2954.83	3855.87	4997.80	na	2740	2702	18.93	13.87	-3.89	1425.20

Manufacturing/Industry		SIZE/IMPORTANCE Sales 1988-89	Sales 1989-90	Sales 1990-91	SIZE/IMPORTANCE Total Assets 1988-89	Total Assets 1989-90	Total Assets 1990-91	SIZE/IMPORTANCE Employ 1988-89	Employ 1989-90	Employ 1990-91	P/L 1988-89	P/L 1989-90	P/L 1990-91	DEBT Long-term (most recent)
Transportation														
BSC	Bangladesh Shipping Corp.	1859.17	2005.40	1841.69	5670.54	5956.06	5942.44	na	810	889	-244.28	-244.66	-482.23	3584.17
BIWTC	Bang. Inland Water Transport Corp.	347.88	430.28	486.72	2304.34	2381.78	2408.65	na	5809	5957	-72.91	-36.84	-36.6	8664.31
CPA	Cittagong Port Authority	1339.49	1500.34	1560.08	7564.30	8695.18	10091.43	na	7232	7296	391.74	487.6	508.09	2348.50
MPA	Mongla Port Authority	na	485.50	502.02	3650.67	3935.46	4472.88	na	1924	1927	191.2	197.13	192.63	550.00
BBC	Bangladesh Biman Corp.	4820.50	5126.97	5746.10	6586.87	7027.03	8413.38	na	5549	5549	32.88	33.54	-400.44	2732.00
BRTC	Road Transport Corp.	158.44	185.54	253.93	na	873.02	722.11	na	4052	3868	-206.55	-258.37	-231.31	1159.79
Trade/Commercial														
BPC	Petroleum Corp.(Consolidated)	14496.59	14389.80	22888.22	9332.82	7404.08	11144.36	na	2980	3013	3373.54	964.11	5534.1	1073.60
BPC-Units	Eastern Refinery ltd	na	327.90	433.30	na	1423.50	1758.40	na	na	na	na	0.2	57.2	1142.02
BPC-Units	Padma Oil CO.Ltd.	na	5965.60	9013.20	na	1842.30	2558.00	na	na	na	na	40.4	32	0.00
BPC-Units	Jamuna Oil Co. Ltd.	na	5004.60	7280.50	na	1693.00	1899.40	na	na	na	na	39.1	40.9	0.00
BPC-Units	Meghna Petroleum Ltd.	na	4721.80	6967.10	na	1711.10	2004.30	na	na	na	na	27.6	4	8.63
BPC-Units	LP Gas Ltd.	na	68.00	90.20	na	153.10	166.10	na	na	na	na	7.3	9.6	58.00
BPC-Units	Eastern Lubricant Ltd.	na	7.00	6.00	na	72.60	54.60	na	na	na	na	8.4	6.1	0.00
BPC-Units	Standard Asiatic Oil co. Ltd	na	7.80	6.20	na	18.80	18.00	na	na	na	na	5	3.1	5.46
TCB	Trading Corp. of Bangladesh	2450.14	1913.69	477.99	2411.82	1956.20	1668.04	na	1311	1332	113.32	86.22	15.59	195.95
Agriculture														
BFDC	Fisheries Development Corp. (all)	173.94	180.70	240.63	na	1494.81	1590.61	na	995	862	-28.28	-11.7	-9.44	na
BFDC-Units	Fish H. Complex,Chittagong	38.16	40.24	na	na	257.43	na	na	na	na	-3.77	0.56	na	na
BFDC-Units	Boat Building Complex,Chittagong	10.33	7.00	na	na	234.10	na	na	na	na	-3.79	-1.58	na	na
BFDC-Units	Trawler Project, Chittagong	19.43	13.22	na	na	122.10	na	na	na	na	-2.2	-4.82	na	na
BFDC-Units	Fish Net Factory Chittagong	8.77	8.15	na	na	32.90	na	na	na	na	-1.56	-0.83	na	na
BFDC-Units	Fish Net Factory ,Comilla	7.59	6.86	na	na	59.20	na	na	na	na	-0.04	3.99	na	na
BFDC-Units	Fish Net Factory ,Digraj, Mongla	6.98	7.11	na	na	27.30	na	na	na	na	-2.34	-1.35	na	na
BFDC-Units	Dev.& Mktg. of Karnaphuly RFP, Rangamati	10.34	13.33	na	na	104.90	na	na	na	na	5.44	7.19	na	na
BFDC-Units	Fish Processing project, Cox's Bazar	13.64	17.48	na	na	69.50	na	na	na	na	-0.88	-0.71	na	na
BFDC-Units	Fish Mktg. and Dist. project,Pagla	25.77	21.73	na	na	194.70	na	na	na	na	-10.7	-6.8	na	na
BFDC-Units	Fish Processing Project, Digraj, Mongla	18.33	28.01	na	na	96.00	na	na	na	na	-6.59	-7.1	na	na
BFDC-Units	Wholesale Fish Mark & Land Term C Bazar	3.34	4.21	na	na	25.90	na	na	na	na	1.37	1.96	na	na
BFDC-Units	Wholesale Fish Mark & Land Term, Khulna	4.84	4.39	na	na	28.30	na	na	na	na	1.7	1.57	na	na
BFDC-Units	Wholesale Fish market, Rajshahi	2.39	3.98	na	na	9.10	na	na	na	na	0.05	-0.08	na	na
BFDC-Units	Fish Landing & Pre.fac. Proj., Barisal	1.24	1.76	na	na	24.10	na	na	na	na	-0.57	-0.32	na	na
BFDC-Units	Fish Landing & Mktg. Proj. Khepupara	1.60	1.77	na	na	21.70	na	na	na	na	-0.53	-0.52	na	na
BFDC-Units	Fish Landing & Mktg. Proj. Pathorghata	1.19	1.46	na	na	19.10	na	na	na	na	-0.51	-0.02	na	na
BADC	Agricultural Development Corp.	na	5280.64	4895.35	12285.60	na	na	na	na	na	-1833.66	-3222.76	na	8050.93
Land leasing, real estate														
RAJUK	Rajdhani Unnayan Kartipakhya	na	17.06	15.17	na	3656.62	4362.74	na	565	565	na	79.42	31.43	149.64
CDA	Cittagong Development Authority	105.10	75.35	75.60	489.80	546.05	602.15	na	507	455	89.29	53.11	48.85	21.11
KDA	Khulna Development Authority	na	15.96	20.03	na	245.24	236.07	na	149	149	na	15.96	13.66	117.00
RDA	Rajshahi Development Authority	5.36	2.18	3.14	203.99	210.59	225.09	na	54	66	13.1	5.54	4.96	10.46

		SIZE/IMPORTANCE			SIZE/IMPORTANCE			SIZE/IMPORTANCE						DEBT
Manufacturing/Industry		Sales 1988-89	Sales 1989-90	Sales 1990-91	Total Assets 1988-89	Total Assets 1989-90	Total Assets 1990-91	Employ 1988-89	Employ 1989-90	Employ 1990-91	P/L 1988-89	P/L 1989-90	P/L 1990-91	Long-term (most recent)
Other/Service														
FILM	Film Development Corporation	102.37	124.26	113.90	388.67	419.76	440.03	na	461	455	1.72	1.34	1.24	197.53
BFFWT -- all uni	Bang. Freedom Fighters Welfare Trust	384.54	472.21	na	734.66	883.31	1043.26	na	2614	2376	22.6	26.35	37.02	358.67
BFFWT--Units	BFFWT -- Industrial	330.67	406.80	na	na	na	na	na	na	na	21.23	18.08	na	na
BFFWT--Units	BFFWT -- Cinema Halls	33.78	43.56	na	na	na	na	na	na	na	0.93	7.13	na	na
BFFWT--Units	BFFWT -- Other Commercial Units	20.09	21.85	na	na	na	na	na	na	na	0.44	1.14	na	na
BPRC	Purjatoo Corp.	na	426.98	560.24	393.65	431.60	521.44	na	645	693	34.03	36.49	38.46	94.85
BCCA	Civial Aviation Authority	465.53	372.53	390.70	3063.28	3332.82	3533.28	4001	4001	4061	131.84	40.54	35.85	107.70
EPZA	Export Processing Zone Authority	20.82	25.45	39.95	541.48	773.96	836.59	na	251	251	2.59	-2.6	1.3	718.65
BIWTA	Bang. Inland Water Transport Authority	193.83	229.51	240.61	2041.93	2371.95	2622.24	na	2963	2979	-1.26	-21.17	-30.79	1102.79
REB	Rural Electrification Board-HO	99.77	103.42	156.25	8614.11	10703.33	11496.83	na	na	na	-37.81	-1.51	0.49	7224.50
Financial Institutions *														
NCB	Sonali Bank	5017.80	5927.60	6586.60	64509.30	72722.40	82853.90	25702	25258	25122	52.40	1.20	16.90	na
NCB	Janata Bank	3920.00	4490.00	4970.00	427442.00	46581.30	51088.20	na	na	na	60.00	0.00	30.00	0.00
NCB	Agrani Bank	3263.50	3731.70	4101.62	34953.20	38310.60	44655.60	na	na	na	8.50	1.62	0.21	150.53
NCB	Rupali Bank	1861.40	1358.20	1793.90	18597.60	19870.70	22022.50	6710	7060	7027	-103.80	-722.70	-407.00	242.75
SBC	Sedharan Bima Corporation	599.52	640.30	na	3687.26	4219.72	na	na	na	na	328.82	294.68	na	670.66
JBC	Jiban Bima Corporation	na	511.92	482.35	na	1407.90	1527.50	na	na	na	na	na	na	na

* Not all financial institutions are included.

Source: Monitoring Cell, Ministry of Finance.

Table 4: Corporate Financial Data FY90 and FY91

(Tk Lakh)

			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
					(1-2)			1-(2+4+5)							(6+7)-(8+9+10+11+12)			13-14
		head offic enterprise	operating revenue	pgs	value added	employ. compen.	deprec. & NC item	operating surplus	net non-op. income	WFP	subsidy	interest	direct tax	dividend	retained income	savings	capital expend.	finance quirement
Manufacturing/Industry									12						12			
BTMC	Textile Mills Corp.	enterprise	40450	25351	15099	11775	2564	760	519			2986			-1707	857	7979	7122
BTMC	Textile Mills Corp.	head office	584	136	448	400	48	0	12						12	60	2121	2061
BSEC	Steel & Engineering Corp.	enterprise	52512	43353	9159	6814	1321	1024	1933	149		5130	1324	65	-3711	-2390	4002	6392
BSEC	Steel & Engineering Corp.	head office	414	150	264	224	40	0	65						65	105	107	2
BSFIC	Sugar & Food Industries Corp.	enterprise	32733	16114	16619	10109	1731	4779	287	181		2449	794	500	1142	2873	2135	-738
BSFIC	Sugar & Food Industries Corp.	head office	723	257	466	417	17	32	40						72	89	589	500
BCIC	Cemical Industries Corp.	enterprise	121644	75343	46301	13705	18933	13663	8855	411		17044	518	1000	3545	22478	31675	9197
BCIC	Cemical Industries Corp.	head office	1041	420	621	504	117	0							0	117	34411	34294
BFIDC	Forest Industries Development Corp.	enterprise	3966	2874	1092	946	450	-304	94	3		153	30		-396	54	630	576
BFIDC	Forest Industries Development Corp.	head office	232	40	192	167	16	9							9	25		-25
BJMC	Jute Mills Corp.	enterprise	77099	53855	23244	54273	1097	-32126	218			5130			-37038	-35941	778	36719
BJMC	Jute Mills Corp.	head office	1538	987	551	522	29	0	44						44	73	73	0
Power, Gas, Water																		
BOGMC	Oil, Gas & Minerals Corp.	enterprise	16691	3506	13185	1528	6737	4920	3338	148		9314	1518		-2722	4015	13468	9453
BOGMC	Oil, Gas & Minerals Corp.	head office	614	24	590	211	10	369	11059						11428	11438	1288	-10150
BPDB	Power Development Board	enterprise	100672	42493	58179	8448	35844	13887	-27573			19425			-33111	2733	84793	82060
CWASA	Cittagong Water Supply & Sewerage /	enterprise	1015	728	287	259	356	-328	127			15		10	-226	130	75	-55
DWASA	Dhaka Water Supply & Sewerage Auth	enterprise	3604	1955	1649	554	859	236	302			381			157	1016	4242	3226
Transportation																		
BSC	Shipping Corp.	enterprise	19812	17750	2062	417	2888	-1243	310			1493			-2426	462	677	215
BIWTC	Inland Water Transport Corp.	enterprise	3885	1908	1977	1948	379	-350	415		50	483			-468	-89	505	594
CPA	Cittagong Port Authority	enterprise	14430	4397	10033	2237	2158	5638	556			1483		1000	3711	5869	5987	118
MPA	Mongla Port Authority	enterprise	3312	1365	1947	683	691	573	1398					300	1671	2362	1049	-1313
BBC	Biman Corp.	enterprise	51270	36779	14491	4552	4253	5686	-801			3629		125	1131	5384	14046	8662
BRTC	Road Transport Corp.	enterprise	1855	17	1838	1168	2034	-1364	69			1289			-2584	-550	22	572
Trade/Commercial																		
BPC	Petroleum Corp.	enterprise	145121	136057	9064	117	95	8852	2372			815	6458	3000	951	1046	96	-950
	Pertoleum Corp - units	enterprise	158560	153675	4885	1985	1384	1516	1405	60		1460	838		563	1947	1549	-398
BJC	Jute Corp.	enterprise	16882	16119	763	884	59	-180	33		3	13098			-13248	-13189	1001	14190
TCB	Trading Corp. of Bangladesh	enterprise	19350	17847	1503	562	76	865	40				691	200	14	90	80	-10
Agriculture																		
BFDC	Fisheries Development Corp.	enterprise	1543	1312	231	228	145	-142	36			6			-112	33	630	597
BFDC	Fisheries Development Corp.	head office	86	40	46	51	1	-6	19						13	14	13	-1
BADC	Agricultural Development Corp.	head office	2125	575	1550	1394	51	105	1221						1326	1377	117	-1260
Construction																		
CDA	Cittagong Development Authority	head office	799	-59	858	134	17	707	178					10	875	892	343	-549
RAJUK	Rajdhani Unnayan Kartipakhya	head office	171	-882	1053	229	30	794	1043					100	1737	1767	14106	12339
KDA	Khulna Development Authority	head office	160	-38	198	51	22	125	149						274	296	409	113
RDA	Rajshahi Development Authority	head office	45	19	26	18	3	5	63						68	71	124	53
Other/Service																		
BFDC	Film Development Corporation	enterprise	1243	821	422	155	76	191	40			229		5	-3	73	517	444
BFFWT	Freedom FightersWelfare Trust	enterprise	4184	3010	1174	569	80	525	80	26		254			325	405	961	556
BFFWT	Freedom FightersWelfare Trust	head office	381	-107	488	142	12	334	676						1010	1022	30	-992
BPRC	Parjatan Corp.	enterprise	4270	3189	1081	157	290	634	-169			100	231	10	124	414	330	-84
BCAA	Civial Aviation Authority	enterprise	3725	1763	1962	1157	400	405						80	325	725	2620	1895
BSCIC	Small & Cottage Industries Corp.	head office	1090	403	687	627	46	14							14	60	392	332
BIWTA	Inland Water Transport. Authority	head office	3120	1633	1487	1222	477	-212							-212	265	2979	
REB	Rural Electrification Board	head office	1606	975	631	197	62	372	1541			718			1195	1257	8157	6900
EPZA	Export Processing Zone Authority	head office	254	81	173	66	186	-79							-79	107	1756	1649
	Handloom Board	head office	148	40	108	122	7	-21							-21	-14		14
	Sericulture Board	enterprise	145	100	45	113	2	-70							-70	-68	16	84
	Tea Board	enterprise	448	302	146	106	12	28						25	3	15	71	56
		TOTALS:	915552	666677	248875	132147	86105	30623	9994	978	53	87084	12402	6430	-66330	19775	246949	224460

		17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
					(16+19)-(17+18)						23+24+25				26-(27+28+29)	
		equity injection	long term borrowing	loan repay	finance deficit	assumed asset	assumed ST credit	equity	long term liabilities	current liabilities	total fund	net fixed asset	other LT asset	current stock	other asset	personnel strength
Manufacturing/Industry																
BTMC	Textile Mills Corp.	1266	5088	1139	1907		1907	1141	19089	42111	62341	33800	275	15088	13182	43186
BTMC	Textile Mills Corp.	1929	2371	1423	-816		-816	30572	21013	42653	94238	1304	49370	5	43559	678
BSBC	Steel & Engineering Corp.	816	1505	120	4191		4191	26870	56320	13022	96212	930	91017		4265	13206
BSBC	Steel & Engineering Corp.				2		2	26870	56320	13022	96212	930	91017		4265	428
BSFIC	Sugar & Food Industries Corp.		1266	119	-1885		-1885	-3248	14978	43604	55334	15219	7048	20564	12503	26962
BSFIC	Sugar & Food Industries Corp.			327	827		827	7936	17736	18008	43680	184	25749	6	17741	613
BCIC	Cemical Industries Corp.	525	11676	12937	9933		9933	121865	261822	127065	510752	311786	4950	67009	127007	27214
BCIC	Cemical Industries Corp.	7498	27323		-527		-527	106389	263711	41807	411907	2345	369622	80	39860	1028
BFIDC	Forest Industries Development Corp.		17	27	586		586	-128	9638	8351	17861	3038	6920	2522	5381	4360
BFIDC	Forest Industries Development Corp.				-25		-25	239	237	919	1395	317	6		1072	262
BJMC	Jute Mills Corp.	60	53392	348	-16385		-16385	-99199	73662	105995	80458	9337	5615	36188	29318	118098
BJMC	Jute Mills Corp.				0		0	26800	25552	11101	63453	81	52907		10465	873
Power, Gas, Water																
BOGMC	Oil, Gas & Minerals Corp.	270	10410	6900	5673		5673	34799	101656	88775	225230	104675	37910	10020	72625	4397
BOGMC	Oil, Gas & Minerals Corp.	184	735	8054	-3015		-3015	1834	94936	775	97545	918	94977		1650	523
BPDB	Power Development Board	19212	69729	22046	15165		15165	399236	423665	192374	1015275	669762	249010	11382	85121	29446
CWASA	Cittagong Water Supply & Sewerage A				-55		-55	6661	7506	370	14537	11892	1	614	2030	837
DWASA	Dhaka Water Supply & Sewerage Auth	1919	1931	676	52		52	20130	12137	331	32598	18802	3407	2704	7685	2740
Transportation																
BSC	Shipping Corp.			1263	1478		1478	10589	32809	5616	49014	38563	722	1503	8226	810
BIWTC	Inland Water Transport Corp.		155		439		439	10840	8664	3917	23421	17444	381	2413	3183	5809
CPA	Cittagong Port Authority		4372	1399	-2855		-2855	50734	15756	2900	69390	29765	8187	820	36618	7232
MPA	Mongla Port Authority	705			-2018		-2018	37857		1497	39354	21024	3970	803	13557	1924
BBC	Biman Corp.		10289	4127	2500		2500	10560	43349	16361	70270	39866	2497	7433	20474	5549
BRTC	Road Transport Corp.			59	631		631	-15615	12185	12160	8730	4903		576	3251	4052
Trade/Commercial																
BPC	Petroleum Corp.		4421	1350	-4021		-4021	32361	15159	45368	92888	665	12724	5198	74301	163
	Petroleum Corp - units		404	248	-554		-554	6784	10826	53969	71579	9372	3860	24399	33948	2817
BJC	Jute Corp.		1582		12608		12608	-82829	23707	72982	13860	587	30	4297	8946	2663
TCB	Trading Corp. of Bangladesh		10		-20		-20	4681		14871	19552	879	348	9305	9020	1311
Agriculture																
BFDC	Fisheries Development Corp.				597		597	-1094	13	16030	14949	4816	222	675	9236	861
BFDC	Fisheries Development Corp.	243	421		-665		-665	2007	5771	8818	16596	60	4	1	16531	134
BADC	Agricultural Development Corp.				-1260		-1260	14200	145	555	14900	1511	76		13313	2672
Construction																
CDA	Cittagong Development Authority		42	40	-551		-551	4083	394	516	4993	3113			1880	507
RAJUK	Rajdhani Unnayan Kartipakhya	6243		181	6277		6277	34766	720	1080	36566	23248	8213	372	4733	565
KDA	Khulna Development Authority				113		113	961	1226	265	2452	747	1680	1	24	149
RDA	Rajshahi Development Authority			27	80		80	1978	108	16	2102	23	1468		611	54
Other/Service																
BFDC	Film Development Corporation		50	44	438		438	911	1981	1287	4179	1709	986	344	1140	461
BFFWT	Freedom FightersWelfare Trust	3	280	143	416		416	-909	3744	5736	8571	4403	212	2426	1530	2372
BFFWT	Freedom FightersWelfare Trust			215	-777		-777	1469	198	825	2492	57	40	0	2395	242
BPRC	Parjatan Corp.				-84		-84	1076	949	2292	4317	1402		2261	654	645
BCAA	Civial Aviation Authority	992	1309	213	-193		-193	31224	1342	762	33328	23471	580	1351	7926	4001
BSCIC	Small & Cottage Industries Corp.	1304	456	208	-1220		-1220	10373	8790	827	19990	1330	17034		1626	1544
BIWTA	Inland Water Transport. Authority	2711	804					12983	9938	799		7647	10906	1916		2963
REB	Rural Electrification Board	4857	16948	880	-14025		-14025	36084	72490	761	109315	921	55988	45219	7187	439
BPZA	Export Processing Zone Authority		1800		-151		-151	-252	7187	404	7339	5317		2022	0	251
	Handloom Board	145			-131		-131	1855	162	77	2094	29	2017		48	240
	Sericulture Board	78		2	8		8	-304	59	532	287	39	3	131	114	466
	Tea Board				56		56	98	738	3	839	257	485		97	314
		50960	228786	64515	12744	0	12744	926238	1738388	1021489	3662395	1422488	1222430	279648	758298	328067

Source: Monitoring Cell, Ministry of Finance

Table 5: Profit and Loss of SOEs
(Tk Lakh)

Sl. No.	Corporations	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-1990	1990-91	1991-92	1992-93
1	BSEC	-2728	-2018	-1348	-854	-492	-617	-777	-3645	-8611	-10685	-9999
2	BSFIC	2177	1887	-2337	-3361	-3149	-950	-2554	1642	-1290	-6920	-9241
3	BCIC	1580	1214	1313	1052	-864	1982	3737	4547	3425	-5484	-660
4	BTMC	230	1118	420	-5663	-2445	-3536	-221	-1748	-5740	-4342	-9593
5	BJMC	1341	-3104	-14617	-15830	-4199	-14309	-18820	-37086	-24732	-31219	-36786
	Total (5 SOEs)	2800	-903	-16569	-24656	-11149	-17430	-18635	-36290	-36948	-58650	-66279
6	BPC	5968	15999	18171	10514	14732	9383	12730	3692	24923	35120	31342
7	BOGMC	716	1358	1006	-285	-712	953	-1905	-2722	3019	5329	6475
8	BSC	243	43	55	-1174	-1006	373	-2447	-2443	-5273	-3830	376
9	BIMAN	1225	1631	-225	-565	-3516	-2655	329	1166	-4004	2625	1943
10	PDB	4170	4529	1986	-2849	1723	-889	6519	-33750	-28016	-77492	-78475
	Total (10 SOEs)	14922	22655	4424	-19015	72	-10265	-3409	-70347	-46299	-96898	-104618
11	BRTC	-1196	-1128	-1371	-799	-1821	-2256	-2374	-2584	-2457	-2382	-2978
12	DWASA	-107	-198	1	-101	197	143	189	157	39	46	67
13	CWASA	-32	63	51	-24	59	-21	-313	-633	-638	-574	-463
14	MPA	-183	-363	668	738	1175	2164	1989	1971	1926	1965	1671
15	CPA	2390	1319	2415	2067	3657	4309	3917	4676	5081	4856	1000
16	BJC	-2714	-1483	-4438	-16232	-1175	-18212	-14765	-13242	-14419	-16747	-21776
17	BFDC	21	-18	-245	-167	26	-180	-283	-117	-153	-2	-64
18	TCB	176	284	107	242	465	410	453	342	156	223	54
19	BFFWT	24	63	66	-47	-108	-260	272	325	324	49	-178
20	DESA	0	0	0							-8527	-8423
21	BADC	-338	-1299	-1764	561	458	780	1617	1326	775	-1048	-2214
22	BFIDC	-59	297	151	119	43	-167	74	-396	627	-1423	213
23	BFDC (Film)	16	18	13	18	17	21	17	13	-195	-161	-89
24	BWTC	-200	-74	-108	-450	-551	-531	-776	-368	-366	-585	-468
25	EPZA	0	4	-86	-102	-80	12	26	-118	1	154	170
26	BSCIC	-39	-25	-50					14	6	-62	-72
27	CDA	11	18	38	-38	277	416	893	707	488	204	70
28	RAJUK	480	784	782	920	1333			794	748	1297	572
29	KDA	80	71	197	17	38	-6	145	105	137	78	55
30	BWTA	-107	-130	192	-520	-484	-53	-13	-212	-308	-89	-238
31	REB	0	0	0					307	793	1091	1865
32	BPRC	10	26	198	163	39	297	127	134	102	92	134
33	BSB	2	-2	-7	-20	-17	1	-6	7	-21	-23	-74
34	BMB	1	-1	0	-1	16			-21	-54	-43	0
	Total (24 SOEs)	-1784	-1784	-3200	-13856	3564	-13123	-8911	-6813	-7408	-21611	-31166
	Total (34 SOEs)	13158	20871	1224	-32671	3636	-23388	-12320	-77160	-53707	-118509	-135784
	Total excluding Petroleum (BPC)	7190	4872	-16947	-43185	-11096	-32771	-25050	-80852	-78630	-153629	-167126

Source: Monitoring Cell, Autonomous Bodies Wing, Ministry of Finance

PUBLIC/PRIVATE SECTOR COMPARISON OF VALUE ADDED AND FIXED ASSETS IN THE MANUFACTURING SECTOR

(In Taka Millions)

	Total Fixed Assets	Value Added	VA/Fixed Assets	VA/Fiscal Assets Higher in:
Food Manufacturing				
Government	1790	1964	1.10	Government
Private	1431	1346	0.94	
Textile Manufacturing				
Government	4435	5597	1.26	Same
Private	3578	4251	1.19	
Paper Products				
Government	2090	663	0.32	Private
Private	123	82	0.67	
Industrial Chemicals				
Government	12319	1704	0.14	Private
Private	343	254	0.74	
Other Chemicals				
Government	143	117	0.82	Private
Private	212	327	1.54	
Iron and Steel				
Government	404	333	0.82	Same
Private	361	304	0.84	
Fabricated Metal Products				
Government	523	100	0.19	Private
Private	284	269	0.95	
Non Electrical Machinery				
Government	1154	98	0.08	Private
Private	172	142	0.83	

Source: Bangladesh Bureau of Statistics: Report on Bangladesh Census of Manufacturing Industries 1987-88.

COMPARISON OF EMPLOYMENT AND LABOR PRODUCTIVITY IN PUBLIC AND PRIVATE JUTE MILLS

	Public			Private		
		Labor Productivity			Labor Productivity	
Year	No. of Employees (000s)	Output (Metric Tons)	Productivity	No. of Employees (000s)	Output (Metric Tons)	Productivity
1983/84	109	330	3.03	57	201	3.56
1984/85	105	321	3.07	48	186	3.87
1985/86	101	274	2.70	50	178	3.53
1986/87	99	329	3.34	54	197	3.67
1987/88	103	320	3.12	51	187	3.66
1988/89	101	314	3.11	50	171	3.39
1989/90	103	317	3.07	53	192	3.59
1990/91	93	278	3.00	43	158	3.63

Source: BJMA Statistical Information Bulletin/Monitoring Cell of the Ministry of Finance, GOB

CHARACTERISTICS OF LABOR (1991)

Sectors	No. of Enterprises	Distribution of Workers					
		Skilled	Semi-skilled	Unskilled	Total	Public Sector	Private Sector
Jute Mills	100	126105	46560	57915	23058222	146630	83950
Jute Press	66	12462	3618	4020	0100	8310	11790
Cotton Mills	316	75890	28475	27103	131468	39956	91512
Handloom	4144	43075	14740	13165	70980	-	70980
Sugar	27	17266	8354	2229	27849	27849	-
Ready Made Garments	1215	395888	108550	134092	638530	-	638530
Engineering	769	67900	30960	37120	135980	13626	122354
Iron, Steel and Re-rolling	126	12120	4980	4729	21829	-	21829
Chemical & Pharmaceutical	449	28750	12980	11307	53037	26374	26663
Tea	152	60264	28690	19568	108522	-	108522
Match	20	7105	5209	3026	15340	-	15340
Newsprint	25	5250	1562	1100	7912	5130	2782
Printing Press	2150	30980	9215	10330	50525	-	50525
Tobacco	18	2850	1558	1802	6210	-	6210
Bidi	198	35130	14132	11982	61244	-	61244
Food & Allied	481	57212	10928	12087	80227	2503	77724
Glass	35	4420	1115	1045	6580	930	5650
Cement, Lime and Potteries	28	6580	1810	2120	10510	4119	6391
Rubber & Plastic	237	11830	2910	3810	18550	-	18550
Tanneries	150	13810	3819	4320	21949	-	21949
Leather & Shoe Industries	129	16150	8320	10580	35050	-	35050
Telephone	530	560	250	184	994	994	-
Furniture & Saw Mills	780	27130	10890	11319	49339	-	49339
Commercial	1450	615975	185109	250128	1051212	-	1051212
Transport (Rail & Road)		1650580	410810	422914	2484304	113570	2373734
Miscellaneous	213	188750	28630	40520	257900	-	257900
Total	13807	3514032	984174	1098015	5596721	386991	5209730

Source: Directorate of Labor, Government of Bangladesh

WORKERS' COMPENSATION PACKAGE IN MANUFACTURING SOEs

Item	Service Length			
	10-14 Yr (Tk)	15-19 Yr (Tk)	20-24 Yr (Tk)	25-30 Yr (Tk)
Monthly basic wage (wage scale of 1985)	1100	1400	1750	1900
Dearness allowance (30% of basic)	330	420	525	570
Additional interim allowance (Tk 250)	250	250	250	250
House rent allowance (35% of wages)	588	725	833	952
Medical allowance (Tk 100/month)	100	100	100	100
Conveyance allowance (Tk 40/month)	40	40	40	40
Production bonus (75 days wages for the year)	350	430	526	566
Festival bonus (60 days wages)	280	345	420	453
Leave encashment (1 day for every 14 days worked equal 26 days)	120	150	180	196
Washing allowance (Tk 25/month)	25	25	25	25
Attendance allowance (Tk 40/month)	40	40	40	40
Gratuity (accrued. exp.)	280	345	420	453
Contribution to Provident Fund 10% on basic wages	168	207	252	272
O.T. payment (2 times rate of wages)	-	-	-	-
Hazard allowance (Tk 6-10/month)	6	10	10	10
Night allowance (Tk 5-10 for night shift)	5	10	10	10
Workers Profit Participation Fund (5% of net profit to be distributed	-	-	-	-
among all workers)	5	5	5	5
Tiffin allowance	3.687	4.502	5.386	5.842
Average Monthly Earning	150	150	150	150
Health care facilities (in factory dispensary)	50	90	90	90
Housing facilities	100	100	100	100
Subsidized canteen facilities	90	95	95	95
School for children	-	-	-	-
Group insurance	4.077	4.937	5.821	6.277
Total compensation per worker/month				

Source: Consultants Analysis ADB TA # 1636

EVALUATION OF FINANCING ALTERNATIVES

1. *Private Treaty Sales*. Private treaty sales can take two forms: (a) sale of assets and liabilities (in specie); or (b) sale of shares. In Bangladesh method (a) has been the preferred method of effecting a private treaty sale in past privatizations. In many cases the GOB has required the buyer to "acquire" the long term liabilities, but not current liabilities. Often buyers for commercial reasons would like to control current liabilities as they represent the key supplier and commercial relationships. Any new buyer will want to ensure these liabilities are in good standing.

2. Private treaty sales should be considered where: (a) the transaction is too small to float; (b) no track record of viability, exists (c) special purpose buyers exist; and (d) after financial restructuring there is material positive net worth. This method has been GOB's preferred method of divestment, as most of the divested enterprises have met the above criteria.

3. *Public offerings*. Public offerings can take a number of variations, the main variations include: (a) sale of a 100% shareholding to a wide spread of investors; (b) sale of a 100% shareholding to a 51% investor and the balance to a wide spread of investors; (c) sale of a minority interest to a wide spread of investors. Most of these variations have been seen in past Bangladesh privatizations. There has been criticism of these variations. The businesses offered for sale have not proved profitable, despite representations to the contrary. Where the sale of minority shareholding has been followed up with the sale of the majority holding, share prices have fallen. Two of the privatized commercial banks were sold with assets that were subsequently classified as non-performing and their share prices declined. Such non-earning assets must be valued realistically before privatization.

4. Public offerings should be considered: (a) where the transaction is of sufficient size to warrant a stock exchange listing; (b) there is a track record of profitability or prospects of profitability are good; (c) the likelihood of a special purpose buyer is low; and (d) there is positive net worth. An example of a business that meets these criteria would be Bangladesh Biman Airlines.

5. In some circumstances where a higher price would be obtained by sale of a total or controlling stake the Government may decide a wide spread of ownership is desirable. It may want to avoid capture of the industry or it may see it as an important part of developing the local capital markets. For example preliminary indications are that GOB will place a 5% limit on voting rights for Development Bank Ltd (DBL). Such restrictions should be avoided and only applied where there is a clear and justifiable rationale.

6. *Liquidation*. In chapter 4 on preparing SOEs for sale a number of situations were identified where enterprises should be liquidated. Business that have no hope of ever operating profitability should be discontinued and liquidated. The situation of losses piling up on losses will only entrench the business further in the mire. The process of liquidation should involve the appointment of an independent liquidator. Independence is important as there will be a number of stakeholders affected by liquidation. The process must be fair to all parties. In carrying out a liquidation there is a major issue of priorities, i.e., in what order should creditors be paid. In the case of a SOE the

following priorities are recommended: (a) payment in full of all employee entitlements, including redundancy; (b) payment of all secured creditors; (c) payment of all unsecured creditors. Liquidation is not common in Bangladesh and has not been considered as an option, though the Companies Act 1913 does provide for liquidation. The liquidation process can be expected to have financial consequences on the government owned banks and the government will need to replace any capital shortfall that develops. This process was adopted in respect of the proposed jute adjustment.

7. *Free of charge transfers*. Free of charge transfers could take place where: (a) existing stakeholders have an interest acknowledged by government; (b) the enterprise has little or no value, or if a negative value exists, the company is controlled by the stakeholder and; (c) where sound policy reasons exist. Stakeholders might include creditors, employees, suppliers or customers. Possible examples include some of the older sugar mills of BSFIC which could be offered to cooperatives of employees, sugar cane growers and wholesalers. Some of the workshops of Bangladesh Steel and Engineering Corporation could be transferred to skilled workers.

8. *Transfer to stakeholders*. This process is similar to free of charge transfers but the business must be viable and have material positive net worth. These transfers would take the form of management buy outs, employee share ownership schemes, grower worker or supplier cooperatives. Often these stakeholders will have a monetary interest in the enterprises which they can convert to fund the purchase of their shareholding. For example, employees may be owed redundancy monies, gratuities, and pensions. These funds could be used to acquire shares. In some recent partial privatizations the GOB offered employees a 14% share of the enterprise. After some initial scepticism, employees took to the scheme enthusiastically as these shares were offered on very attractive terms.

9. *Innovative Financing Mechanisms*. There are a number of other possible financing mechanisms. They typically involve some form of separation of ownership or activity, i.e., (a) separation of management from ownership; (b) allowing new private sector investment; and (c) partial divestment of activity. These techniques are discussed in Chapter 6. They are often used where the asset values are significant, there is certainty of income and future significant capital investments are required. In recent times BPDB have made some limited progress with contracting out of meter reading in the northern part of Bangladesh.