Issues in Privatization and its Practice: Divestiture of State Owned Enterprises in Bangladesh and Lessons for India

Thesis submitted to the Jawaharlal Nehru University in fulfillment of the requirements for the award of the Degree of

DOCTOR OF PHILOSOPHY

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CERTIFICATE

It is to certify that the thesis entitled *"Issues in Privatization and Its Practice: Divestiture of State Owned Enterprises in Bangladesh and Lessons of India"* submitted by Nalin Bharti for the award of the degree of Doctor of Philosophy (PhD) is a bona fide work. To the best of my knowledge, it has not been previously submitted in any form for any degree or diploma to this or any other University.

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In memory of
my
Grandfather

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Nalin Bharti

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Abbreviations

ADP	Annual Development Plan
AGM	Annual General Meeting
AITUC	ALL India Trade Union Congress
BADC	Bangladesh Agriculture Development Corporation
BALCO	Bharat Aluminium Company Limited
BCIC	Bangladesh Chemical Industries Corporation
BCIL	Bangladesh Cycle Industries Limited
BCS	Bangladesh Cable Shilpha
BHEL	Bharat Heavy Electrical Limited
BIDS	Bangladesh Institute of Development Studies
BIMARU	Bihar Madhya Pradesh Rajasthan Uttar Pradesh
BJMC	Bangladesh Jute Mill Corporation
BJP	Bhartiya Janta Party
BOI	Board of Investment
BOO	Build Operate Own
BOT	Build Operate Transfer
BMS	Bharat Majdoor Sangh
BPBC	Bangladesh Paper and Board Corporation
BPCL	Bharat Petroleum Corporation Limited
BPDB	Bangladesh Power Development Board
BRPL	Bangaigaon Refineries and Chemicals Limited
BRTA	Bangladesh Rural Telecom Authority

BSB	Bangladesh Shilpa Bank
BSFIC	Bangladesh Sugar and Food Industries
BSNL	Bharat Sanchar Nigam Limited
BTL	Bangladesh Telecom (Pvt.) Limited
BTMC	Bangladesh Textile Mill Corporation
BTRC	Bangladesh Telecom Regulatory Commission
BTTB	Bangladesh Telegraph and Telecommunication Board
CAG	Comptroller and Auditor General of India
CCCGCL	Chittagong Cement Clinker Grinding Company Limited
CDRB	Centre for Development Research Bangladesh
CEL	Central Electronics Limited
CITU	Centre of Indian Trade Union
COPU	Committee of Public Undertakings
CPD	Center for Policy Dialogue
DC	Disinvestment Commission
DCCI	Dhaka Chamber of Commerce and Industry
DCR	Disinvestment Commission Report
DF	Disinvestment Fund
DFIs	Development Financial Institutions
DGI	Director General of Industries
DPE	Department of Public Enterprises
DVOI	Dhaka Vegetable Oil Industries
EARC	Economic Administration Reforms Commission
EBC	Eagle Box Carton Manufacturing Company Limited
ESOP	Employee Stock Options Programme
ET&T	Electronic Trade and Technology Development
FBCCI	Federation of Bangladesh Chamber of Commerce and Industry
FDI	Foreign Direct Investment

FICCI	Federation of Indian Chamber of Commerce and Industry
FLAG	Fiberoptic Line Around the Globe
FON	Fiber Optic Network
FY	Financial Year
GAIL	Gas Authority of India Limited
GATS	General Agreement on Trade and Services
GATT	General Agreement on Tariff and Trade
GB	Grameen Bank
GDP	Gross Domestic Product
GDR	Global Depositary Receipt
GOB	Government of Bangladesh
GP	Grameen Phone
GSM	Global Standard for Mobile Communication
GTC	Grameen Telecom Company
HCI	Hotel Corporation of India
HCL	Hindustan Copper Limited
HFCL	Hindustan Futuristic Company Limited
HPCL	Hindutan Petrolium Company Limited
HPL	Hindustan Fertilizer Limited
HSCL	Hindustan Steel Works Construction Limited
HTL	Hindustan Tools Limited
HVOC	Hindustan Vegetables Oils Corporation Limited
INTUC	Indian Trade Union Congress
ICB	Investment Corporation of Bangladesh
ICOP	Inter-ministerial Committee on Privatization
IIS	Industrial Investment Schedule
ILAs	International Lending Agencies
ILO	International Labour Organization

IOC	Indian Oil Corporation
IPO	Initial public offering
IPR	Industrial Policy Resolution
ISD	International Subscriber Dialing
ISDN	Integrated Service Digital Network
ISP	Internet Service Providers
IT	Information Technology
ITDC	India Tourism Development Corporation
KCCL	Kohinoor Chemicals Company Limited
KGI	Kohinoor Group of Industries
LDC	Least Developed Countries
LPG	Liberalization Privatization and Globalization
LIC	Life Insurance Corporation
MEBOs	Management Employee Buy-outs
MFIL	Modern Food Industries India Limited
MMTC	Mineral and Metal Trading Corporation and India Limited
MOPT	Ministry of Posts and Telecommunications
MoU	Memorandum of Understanding
MP	Member of Parliament
MPEs	Manufacturing Public Enterprises
MRTP	Monopolistic and Restrictive Trade Practices
MTNL	Mahanagar Telephone Nigam Limited
NALCO	National Aluminium Company Limited
NCAER	National Council for Applied Economic Research
NCBs	Nationalized Commercial Banks
NDA	National Democratic Alliance
NDRI	Natural Death Rate of Industries
NEP	New Economic Policy

NGO	Non Governmental Organization
NHPCL	National Hydroelectric Power Corporation Limited
NIFs	National Investment Funds
NIHRDT	National Institute for Human Resource Development in Telecommunications
NIP	New Industrial Policy
NIRDT	National Institute of Research and Development
NLC	National Lignite Corporation Limited
NMDC	National Mineral Development Corporation Limited
NRF	National Renewal Fund
NSD	National Subscriber Dialing
NTP	New Telecom Policy
NTPC	National Thermal Power Corporation
OIL	Oil India Limited
ONGC	Oil and Natural Gas Company Limited
PAC	Public Accounts Committee
PB	Privatization Board
PBTL	Pacific Bangladesh Telephone Ltd.
PC	Privatization Commission
PCO	Public Call Office
PE	Public Enterprises
PEC	Projects & Equipment Corporation Limited
PHHI	Pawan Hans Helicopters Ltd.
PM	Prime Minister
POWERGRID	Power Grid Corporation of India Limited
PPCL	Pyrites Phosphate & Chemicals Limited
PSEs	Public Sector Enterprises
PSUs	Public Sector Units

PTICs	Public Tele-Info Centres
RICL	Rehabilitation Industries Corporation Limited
RINL	Rastriya Ispat Nigam Limited
RIP	Revised Industrial Policy
RITES	Rail Technical & Economic Service Limited
RM	Research Methodology
SABRE	System for Autonomous Bodies Reporting and Evaluation
SAPTA	South Asian Preferential Trade Agreement
SCI	Shipping Corporation of India Limited
SEWA	Self Employed Women's Association
SOCBs	State-Owned Commercial Banks
SOEs	State Owned Enterprises
SOTS	State Owned Telecom Services
SPSEs	State Public Sector Enterprises
STD	Subscriber Trunk Dialing
SWF	Special Workers Fund
TCS	Tata Consultancy Services
TDSAT	Telecom Dispute Settlement and Appellate Tribunal
TERI.	Tata Energy Research Insstitute
TISCO	Tata Iron and Steel Company
Tk	Taka
TMIB	Telecom Malaysia International Bangladesh
TRAI	Telecom Regulatory Authority of India
TRC	Telecommunication Regulatory Commission
TSS	Telephone Shilpha Sangstha
TW	Third World
UHF	Ultra High Frequency
USA	United States of America

UTI	Unit Trust of India
USD	United States Dollar
VAT	Value Added Tax
VDS	Voluntary Departure Schemes
VHF	Very High Frequency
VOIP	Voice Over Internet Protocol
VP	Village Phone
VPTs	Village Public Telephones
VRS	Voluntary Retirement Scheme
VSNL	Videsh Sanchar Nigam Limited
WB	World Bank
WDR	World Development Report
WLL	Wireless in Local Loop
WTDC	World Telecommunication Development Conference
WTO	World Trade Organization

Chapter 1

INTRODUCTION

1.1 BACKGROUND

'Privatization'[1] is one of the most debated topics in the recent history of economics, with different origins and different hopes. It has created a new wave of thinking among economists, politicians, bureaucrats, labour unions, International Lending Agencies (ILAs) and for those who are more or less affected by it as stakeholders. In the beginning of the 20th century, most of the economies depended only on the private sector. That was the time when the role of the government was only to protect the people from external threat. War was a reality in the beginning of the 20th century. Two world wars and its impact on the world economy were obvious. The great depression of 1930s and a total uncertainty over the world economy have started so many debates over the solutions for economic problems. Different countries had followed different 'Economic Systems'[2]. Due to the implementation of the different economic systems, the role of the government has finally changed. Capitalism preferred strong participation of the private sector. Government played the key role in socialism. Private players and the government played a joint role in the mixed economic system. In the above

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1 It is the new word that is rapidly coming into popular usage despite its awkward sound. The word 'privatize' first appeared in Webster's New Collegiate Dictionary, 9th ed.1983, p. 936 with the meaning 'to make private' especially to change (as a business or industry) from public to private control or ownership. In 1985 David Heald also claimed that the word 'Privatization' is first used by him.In his word "The world embraces many different policies, having quickly become established as a piece of shorthand. The wide variety of policies and measures included under its umbrella are portrayed as being part of a movement in favour of 'rolling back' the state in the names of freedom and efficiency." (David Heald, *Privatization: Policies, Methods and Procedures*, Asian Development Bank, Manila, 1985, p. 58)

2 The term economic system refers to the ways in which goods and services are produced and distributed in a society.

discussion of the economic system, the approach of state owned enterprises (SOEs) or Public Enterprises (PEs) succeeded in most of the developed and developing economies. Over the last several years, privatization has been the subject of debates. A pervasive dissatisfaction with the performance of PEs is at the heart of the appeal for privatization to the policy makers in developing countries. It is thus useful to briefly examine the record of public enterprises in these countries. Experts like Rammurti and Vernon stated:

> The largest part of the state sector in most developing countries is made up of SOEs that monopolize or dominate markets and that are very large by national standards. In the typical developing countries the 10 or 12 largest SOEs account for 70 to 80 per cent of the SOE sector's total assets. In these cases, privatization has been hard to evaluate and even harder to implement. In Latin America, where many countries had relatively well-developed capital markets, governments commonly sold a part of the equity to the public. By contrast in Africa, where capital markets were underdeveloped or non-existent, governments used management contracts and leases to privatize SOEs that were larger or dominated their markets.[3]

Therefore, it should not be surprising for any Indian when Jawaharlal Nehru said that, 'Public Enterprises are the temples of modern India'. In Bangladesh too Sheikh Muzibur Rahman's policy of socialism was very much close to the Indian development pattern in which SOEs had a greater importance over the private enterprises. Over the years, unsatisfactory performance of SOEs and heavy losses created too much burden on the national exchequer. Because of this situation, the saga of SOEs became less relevant to the world economy. In most of the developed economies, this saga became silent. Politicians were

[3] Ravi Ramaurti and Raymond Vernon (eds.). *Privatization and Control of State-owned Enterprises*. EDI Development studies, The World Bank, p. 15.

less conscious about state business and more conscious about themselves. SOEs became the way to satisfy the ego of bureaucracy. Leaders of labour unions became greedy and they were exploiting the poor labourers. In such situation, responsibility of the government changed from being a producer to a facilitator. The government left the job of producing cement, sugar, cloth, bicycle, car, washing powder and many other things, which is being produced by private players now. This new trend is a fact in every country across the globe. In the above-discussed situation, privatization became an unavoidable task for every government.

Dissatisfaction from SOEs was at the peak during 1970s. The World Bank and the International Monetry Fund (IMF) have extensively discussed this issue in various meetings. Even in 1990s in a round table discussion, the World Bank economist Nicholas Stern expressed the view:

> There are many examples of incompetent government enterprises, and those who criticize government have a rich set to draw upon to verify their prejudices. Yet there are also many successful government enterprises. I think there is a general consensus that many of the French enterprises have been very successful. Many people cite some examples in Singapore. Studies show that there is no significant difference between the efficiency of the Canadian National Railroad and the Canadian Pacific Railroad. So, if one is not quite so selective, then one can find examples on both sides of the issue, and we need to inquire in more detail what accounts for the success or failure of government programs.[4]

[4] Nicholas Stern, *Roundtable Disscussion on Development Strategies: The Roles of the State and the Private Sector*, Annual Conference on Development Economics, World Bank,1990, p. 431.

In 1980s because of the poor performance of SOEs, a large number of reform exercises suffered a setback all over the world. However it caused as fast privatization in 1990s. Just like most of the policies, it too has a double face. IMF also accepted the double face of privatization. As IMF's occasional paper stated:

> Privatization is currently being facilitated by favourable economic developments. By its nature, privatization will result in enterprises having to respond to market forces. Thus, in the event of an economic downturn. the government should be prepared to accept the employment losses, bankruptcy or takeovers that result. If government instead responds to pressures for intervention (and possibly denationalization), it may find itself in a position where it is bearing costs associated with privatization, in particular, sale proceeds that do not reflect the profit forgone in good years, while paying for rescue operations in bad years. Thus the need to ensure that privatization extends beyond a transfer of ownership and this potential improvement in efficiency is indeed realized is again emphasized.[5]

Amnuay also stated that the 1980s may have been named the decade of merger and acquisition, leveraged buy-outs, and junk bonds, but the 1990s are likely to be known as the decade of privatization and market economy.[6]

The Privatization practice was early in developed countries. In the special issue of World Development on privatization, editor Christiansen stated that in 'Britain' (the pioneer of privatization), privatizing SOEs or some part of their functions was encouraged by

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5 Hemming Richard and Ali M. Mansoor, Privatization and Public Enterprises, IMF, Occasional Paper No. 56, 1988, p. 20.

6 Vikram Amnuay, Privatization: Financial choice and Opportunities, International Centre for Economic Growth Publication, California, 1992, p. 8.

the newly elected conservative governments in the late 1970s and early 1980s. It was followed by other Western democracies, largely out of frustration with the deficit and perceived inefficiencies of these state agencies. At the time, it was generally assumed that there were significant benefits to be gained by eliminating the inefficiencies–and the deficits that typically accompanied them–fostered by public ownership. In reality, although efficient operation of these entities was a legitimate concern, often the more pressing motive for privatization was the fiscal drain on government treasuries at a time when policy makers were worried about inflation and public sector deficits. Certainly this was the main concern in Britain, where a policy of privatizing many SOEs was first implemented.[7]

Experiences in developing countries are different from developed countries Christiansen also stated that during this period, whereas developed countries were wrestling with problems of deficits and inflation, most of the developing countries were faced with a similar but more serious set of problems, e.g. growing current account imbalances, increasing external debt, unfavourable terms of trade, and rising government budget deficits. Given the nature and seriousness of these problems, it is not surprising that the appeal of privatization has spread from the developed to the developing countries. Although some government of developing countries sought to follow independently the example of the developed ones, many more were pressed to implement privatization policies through the conditions attached to structural and sectoral adjustment loans made by the World Bank and supported by some bilateral donors.

7 Robere Chrisciansen–Editors introduction, *World Development,* Vol. 17, No. 5, p. 597, 1989.

'The implementation of privatization policies in the developing countries has been more controversial than in the developed countries for several reasons', including:

(i) the controversy that surrounds conditionality in general;

(ii) the perception that privatization has been pursued against the governments officials, bureaucrats and managers;

(iii) the view that privatization is an ideological and not a substantive issue; and/or,

(iv) the perception that privatization has been pursued without considering the consequences in terms of reduced distributional equity or the loss of development functions performed by some of these enterprises' [8].

The above mentioned reasons are true with respect to the study of Bangladesh and India. The conditionality by IMF and World Bank are still controversial in Bangladesh and India. These donor agencies had always instructed for structural adjustment. The dissatisfaction of government official, bureaucrats and managers are quite obvious in both economies, because privatization reduces their powers. In terms of an ideological issue too, developing countries including India and Bangladesh still did not come out from the fear of political backlash, because it always questions the policymakers on the front of employment since developing countries have a highly unemployed population. Apart from these reasons it also includes the matter of distributional equity. The issue as to who has allowed to buy the shares and whether management and employees are getting the

[8] Ibid.

benefits of share distribution are some of the reasons behind the controversy of privatization in developing countries

Even after these controversies and dissatisfaction, privatization has spread to the entire globe. Nicholas stated that it quickly spread to the developing world, under the impetus of strong support by the international donor community, the need to cut government expenditures in the face of fiscal crises after the oil shocks of the 1970s and an intellectual and ideological climate increasingly hostile to state intervention in the economy. Over 80 developing countries are involved in these efforts, including countries like China, Tanzania, and Algeria which have traditionally favoured a prominent role for the state in the economy. Privatization gained considerable momentum in the developing world in the 1980s. Although countries such as Bangladesh, Chile and Israel divested some SOEs in the 1970s, many developing countries instituted privatization programmes because they were spurred by the need to improve SOE performance, or to stop the cash drain. In some cases, these countries were pressured by organizations such as the World Bank. In the 1960s and 1970s they thought that SOEs could solve the economic and social problems the private sector could not or would not address. Now privatization, they thought, would solve the problems the SOEs had created. [9] After fifteen years of the Nicholas's study the number of countries involved in privatization is around

[9] Nicholas Van De Walle has extensively pointed out the nesscecity to establish the PEs and also the pace of privatization over the years, *World Development,* Vol. 17, No. 5, pp. 601–607, 1989.

120 in 2004. Privatization experts like Ramandham evaluated the experiences from various countries. He stated:

> One extreme lies China, centrally planned and public-enterprise-orientated, and the other comes Jordan with its dominant private sector. In between these extremes are various other country experiences. In Pakistan, as in Sri Lanka, the relative orientation to public enterprise has swung with political changes in government. In India public enterprise continues to be a sacred cow. In Malaysia public enterprise as well as privatization aims at endowing the 'sons of the soil' with capital ownership. Ghana, Nigeria and Jamaica have felt the impacts of structural loan agreements with the IMF, but have had varying patterns of exposure to consequential privatization. Kenya has an apparently decisive pronouncement on, but without commensurate implementation of privatization measure. In Africa divestitures, (essentially owing to French capital investment) has been proceeding at a relatively fast rate.[10]

Because of different sequences and nature of privatization one can easily agree with the point made by Bienen and Waterbury that there are differences in the timing, sequences and structure of the expansion of the public sector within and between industrial and developing countries. Similarly, there are and will be differences in the timing, sequence and structure of privatization reforms. Indeed, the timing and sequencing issues refer not just to the pace and scope of privatization, -which industries or services will be sold or eliminated, but what kinds of regulations will itself be undertaken within the gamut of structural adjustment and stabilization reforms is very important.[11]

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[10] V.V. Ramadham (ed.), *Privatization in Developing Countries*, Routledge, London and New York, (1989) pp. 405–17.

[11] Henry Bienen and John Waterbury. Political economy of privatization the developing countries. *World Development*, Vol. 17, No. 5, pp. 617–631.

From this discussion we can easily point out that privatization is not a choice but it became inevitability in the 1980s. In the light of the discussion on privatization, we can see the case of privatization/ divestiture in Bangladesh.

1.2 BANGLADESH'S EXPERIENCES

Bangladesh, a significant votary of the agenda of privatization, embarked on a partial-privatization programme just after its independence. The political parameters of the state marked some discontinuity after 1975. The period between 1972–75 was dominated by a regime which had come to power at the end of two decades of political struggle as the vanguard of the Bengali nationalist movement. It had won an overwhelming electoral victory with a mandate to realize self-government for the Bengalis and had led the war of liberation. Its political posture was thus populist in its perspective, being sensitive to the concerns of a large constituency of the underprivileged. Such a regime was less inclined to support the creation of an elite class under state sponsorship recreated in the image of the non-Bengali entrepreneurial class, which dominated the economy of Bangladesh up to 1971. The 'Socialist' commitment of the ruling party was thus less motivated by ideological imperatives than by recognition of the social base of their constituency.

In 1971, the government was forced to intervene to fill the vacuum in the economy as the then-owners abandoned their properties and fled the country. The Industrial Policy of March, 1972 nationalized the core industries—jute, textile, chemical and other basic industries, banks and insurance companies etc. and brought under government control nearly 90% of such enterprises.

The change in the direction of state policy after the regime change in August 1975 used as its justification the weak performance of the public sector during 1972–75. It was evident that the public sector was far from playing the role of a dynamic resource centre for stimulating development.

From inception itself the public sector enterprises could not run profitably and efficiently, due to the severe financial difficulties and serious management problems. Moreover, the assassination of Mujibur Rahman in 1975 and the consequent unrest worsened the Bangladesh economic condition. This had been made more difficult by the damages of the war on an already weak infrastructure. It was no less difficult to run the public sector corporations left by the Pakistanis. On the whole, for many years the industrial sector remained sluggish in Bangladesh. In 1975, the government began to reverse its policy of nationalization due to a heavy burden created by the public sector enterprises on the national exchequer. During the Zia regime, a series of decisions were taken to divest enterprises covered by the nationalization order to 1972. The main policy role of the regime thus appears to have been to support the growth of private entrepreneurship by modifying the exclusive jurisdiction of the state in some segments of the economy. But no substantive attempt was made in that period to roll back the frontiers of public enterprise.

The assassination of Ziaur Rahman in 1981 and the worsening economic situation stalled the emergence of a coherent economic policy. The New Industrial Policy (NIP) of Gen. Ershad in 1982 reflected the government's intention to rely more on the private sector for the production of goods and services. The second half of the 1980s saw further efforts to encourage a wider participation of investors in the privatization process. There has been an exponential increase in the number of divested SOEs in Bangladesh during the Ershad period. According to a country paper presented by Momtaz-ud-din Ahmed at a sub-regional meeting on '*Privatization in South Asia*'[12] in November, 1999, the number of divested SOEs is estimated to be more than 1000 in Bangladesh. This figure indicates that Bangladesh shared a major part, almost 10 %, in the 'world divestiture'[13].

1.3 INDIAN EXPERIENCES

The agenda of privatization is a recent phenomenon in India. The public sector in India came into being at the time of independence as a part of the Nehruvian socialist framework. Nehru believed that large scale investments would be necessary to achieve accelerated economic development. This could be achieved only by the state as was argued even by the Bombay Plan 1944, prepared by the Indian industrial magnates highlighting the need for a central planning authority and developing domestic capital goods industries. Industrial Policy Resolution (IPR) of 1948 underlined the need for the

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[12] Mumtazuddin Ahmed, *Privatization in South Asia* (ed. Gopal Goshi), ILO, New Delhi, 2000.

[13] See the *Bangladesh Privatization and Adjustment*, World Bank, Report No.12318-BD, March 10, Wasington D.C, 1994. Report had admitted that till 1994 the total number of divested enterprises in the world was around 8000.

state to play a progressively active role in the development of industries. The IPR 1956 demarcated more clearly the responsibility of the development of specific industries between the public and private sectors. Prior to 1991, the IPR of 1956 was amended from time to time for example, in 1973, 1977, 1980 and 1985 but all the changes were within the basic framework of IPR-1956.A drastically different policy framework reflecting the programme of development relying more on market forces was announced in July 1991. In brief, this policy abolished industrial licensing for all industries other than the specified 15 ones thus drastically eliminating the entry barrier. This also delimited the role of public sector to only eight sectors. Privatization is an important part of the IPR of 1991.

1.4 SURVEY OF LITERATURE

The book written by Clare E. Humphrey, *Privatization in Bangladesh: Economic Transition in a Poor Country,* University Press Limited, Asian Edition, Dhaka, 1992. is the first book in this regard. This book provides a historical backdrop to the privatization in Bangladesh. The study of privatization is divided into two major phases: the phase between 1975–81, and the second phase of 1982–88. This book adequately analyzes the government policy towards privatization in Bangladesh.

World Bank also did a significant work in 1994. World Bank came out with a document named *Bangladesh Privatization and Adjustment*, World Bank, Report No.12318-BD, March 10, 1994. The major emphasis has been directed towards examining the factors that underscore the initiation of the different types of privatization in

Bangladesh. Data relating to public enterprises and privatized enterprises provides a variety of information about privatization.

Around the same time, Professor Rahman Sobhan has also written a chapter on the historical and present backdrop of privatization in a book *Bangladesh: Problems of Governance,* University Press Limited, Dhaka, 1993. The chapter 'Governance and Entrepreneurship' presents a lucid picture of why the government initiated a divestiture of the SOEs. Elaborate data analysis and tables are a major output of this chapter. It also analyzes the political economy of privatization and is a standard reference work for an understanding of the industrial problems of Bangladesh.

Dr. Binayak Sen who did an extensive work on the whole gamut of divestiture came out with two different studies at two different times. First, it came as 'Privatization in Bangladesh: Process, Dynamics and Implications', *(Privatization: Trends and Experiences in South Asia,* Edited by *V. Kanesalingam, Macmillan* 1991). The author points out that in recent years, the casual links between privatization and higher growth are far from straightforward. In some countries privatization has led to a more competitive production structure, higher growth, increased efficiency and greater prosperity. The privatization strategy in the author's perspective has clearly failed to usher in a dynamic era of industrialization in Bangladesh despite the liberal provision of foreign aid and various policy incentives channeled into the private sector over the last decade. He poses the question—what went wrong in the privatization programme of the eighties? And concludes that there has yet been no answer to this question. Hence the subject matter warrants further probing.

Dr. Binayak Sen again tried to look into the various aspects of divestiture in a survey conducted by Bangladesh Institute of Development Studies (BIDS) named *Whither Privatization: Results of an Explanatory Survey of the Disinvested Industries in Bangladesh,* 1997. He tried to find out many aspects of privatization. These aspects include indication of closure, change in ownership, lack of entrepreneurship, etc. Sen was not very clear in making final conclusions.

World Bank has taken interest to show how privatization is really a positive step in the Bangladesh's economy. Dr. CAF Dowlah conducted a study in 1997 probably to counter the findings of Binayak Sen's study. The study was named, *Privatization Experience in Bangladesh,* 1991–96, World Bank, Vol. 1, September 7, 1997. This study addresses criticisms of Sen by reviewing the overall privatization processes and experience of Bangladesh and examining the performance of the enterprises privatized during the period, 1991–96. It specifically focusses on whether the creation of the Privatization Board added efficiency and effectiveness in the privatization process and whether the enterprises privatized under the auspices of the Privatization Board has performed well. However, this study was only based on the privatization of 13 SOEs. In Bangladesh the sample size of 13 enterprises is inadequate to test the success or failure of privatization, since the number of privatized enterprises are very high.

A CPD study *"Privatization in Bangladesh: An Agenda in Search of a Policy*, 1997, by Professor Rahman Sobhan again tried to locate the failure of the policy makers in the privatization decision. The study pointed out that no serious effort is now made to diagnose the problem of the SOEs or to improve their performances. Thus, there is little incentive for the units still under public ownership, to make the effort to improve themselves. Indeed there is now some inducement for employees to increase their prediction on SOE resources before they are finally sold-off. Study also indicates a rapid deterioration in the performance of SOEs once they have been listed for privatization.

One doctoral work by Md. Alauddin on the topic '*Privatization in Bangladesh: Issues, Strategies and Possibilities*' was submitted under the supervision of Dr. Abdul Quayyum Khan, in Aligarh Muslim University in 1985. The study focused on the consensus from all major political parties, bureaucrats and private sector for the successful effort towards privatization.

A study by Shamsul M. Haque, named *Privatization in Bangladesh: Success or Failure?* World Bank, Dhaka, 2000 advised that without restructuring, decision makers should try to privatize SOEs.

Professor Tanweer Akram (Columbia University) had written many extensive papers on privatization experiences of Bangladesh in 1999. His main papers are as follows:

(i) Public enterprises: Inefficiency and the road to privatization in Bangladesh;

(ii) Privatization of public enterprises in Bangladesh: problems and prospects; and

(iii) Ineffective privatization of public enterprises: the case of Bangladesh.

These papers provide an overview of PEs ineffiency and discuss the main issues concerning the privatization programme in Bangladesh. The papers analyze some of the limitations of the privatization of PEs in Bangladesh, focusing on the debt-default status and the tax registration profile of privatized firms. The papers also point out how the country's privatization programme can be improved.

Time to time, various chambers of commerce and industries like Dhaka chamber of commerce and Industry (DCCI), Fedration of Bangladesh chamber of commerce and Industry (FBCCI) have prepared many documents. Some new reports are *Privatization of State Owned Utilities*, FBCCI, November, 2000, and *Economic Policy Paper on Privatization Policies,* DCCI, 2000. Basically these papers had only given some policy prescriptions to related ministries.

1.5 OBJECTIVES OF THIS STUDY

At a certain level, Bangladesh and India can be considered as facing largely similar problems in the context of privatizing SOEs. There are legal and administrative bottlenecks in handing over the loss-making SOEs. Problems associated with valuation and the lack of transparency have inhibited the process of divestiture. There have also been allegations of large-scale corruption and nepotism in the valuation of SOEs in the process of privatization. Stock markets have encountered problems of accountability. In recent years it is also evident that the privatization process had a 'stop and go' phenomenon in Bangladesh. The wide range of diverstiture study was still awaited for Bangladesh. It was found that various studies had different approaches. Most of the World Bank studies have taken interest to show that privatization in Bangladesh is a successful experience, but most of the Bangladeshi viewpoints have found out certain outcomes, which point out to the crisis of privatization. In this regard, this particular study will strictly try to find out honest results of privatization.

It is true that there are many factors involved in the privatization issues on Bangladesh as well India. However, this study will present a comparative picture of divestiture policy and its outcomes in relation to Bangladesh and India. It was also seen that most of the study on Bangladesh covers only the trend in privatization till 1997. This study will include the current trend in the privatized industrial sector and separately in services like telecom. The issue of privatization has became very controversial in India. It is hoped that Bangladesh, which started privatization way back in 1976, would have some lessons for India. In this connection, *'Issues in Privatization and its Practice: Divestiture of State Owned Enterprises in Bangladesh and Lessons for India'* is an important topic in the South Asian economic discourse. With a historical evaluation of the political economy of privatization, this study will also focus the recent trends, developments, problems and challenges in the field of divestiture in Bangladesh. Objectives of this study are:

(i) To analyze the factors contributing to the inability of the Government of Bangladesh to efficiently administer public enterprises and the consequent inefficiency in their operation;

(ii) To analyze the nature of policy shift from Nationalization to Privatization in Bangladesh and India;

(iii) To analyze the issues and methods involved in privatization and also to analyze the need for restructuring of SOEs before and after privatization in both economics;

(iv) To compare the performance of industrial enterprises and also the telecom sector in services in both economies

(v) To study the political economy of privatization in Bangladesh and take lessons for India.

1.6 HYPOTHESIS

1. Transparency, fairness, well developed capital market, broad range of approaches are essential conditions for a successful privatization programme.
2. Pre-privatization restructuring reform with a well functioning legal apparatus is essential for the success of privatization.
3. Entrepreneurship development in a strong socio-political environment is necessary for providing a proper support base to the agenda of privatization.

1.7 RESEARCH METHODOLOGY (RM)

This empirical study has two distinct objectives. Whereas the first objective aims at seeking models the second one seeks patterns. A model is a description or a summary of a data set, typically on a large scale, in the sense that it summarizes the main or most interesting or relevant features of a data-set, where a pattern is a small scale feature of just part of the data. To know the current status of privatized units this study will also incorporate extensive interviews of different stakeholders. The RM of this work consists of both substantive field-independent and field-dependent approach. To find out the final conclusion, we will also relate empirical findings with the established privatization theories.

Primary data and interview for this work is based on the fieldwork at Dhaka and adjoining industrial area, Tejpur. The Tejpur industrial area is close to Dhaka and many privatized units are still running in this area. Secondary data are collected from many places in Dhaka like, Privatization Commission, Board Of Investment, World Bank office, Center for Policy Dialouge(CPD), Centre for Development Research, Bangladesh (CDRB), Bangladesh Institute of Development Studies (BIDS), DCCI ,FBCCI, Bangladesh Telecom Regulatory Commission (BTRC).

1.8 CHAPTER SCHEME

1. *Introduction*

Provides a general overview of the study with a brief discussion on the ongoing privatization exercise in the world.

2. *Privatization: Issues, Theory and Methods*

This chapter deals the concept of privatization, methods of privatization and the issues of privatization and its practice. This chapter would specially focus on the theory and process of divestiture.

3. *Nationalization to Privatization: Policy Shift in Bangladesh*

This chapter deals with the nationalization process, different issues and practical problems of nationalization in relation to the SOEs. It also deals with the overall shift in industrial–economic policy in Bangladesh.

4. *Divestiture in Bangladesh*

This chapter deals the, performance of SOEs after divestiture and the relevant issues after privatization. It also deals with the method involved in the divestiture process. This chapter will also examine the earlier set backs and will also provide recommendations for further privatization programme.

5. *Telecommunication Privatization: Comparison between Bangladesh and India*

This chapter deals with the currently started privatization process of telecom sector in Bangladesh as well as India. This chapter will try to present the critical picture of telecom sector. The positive aspect of these reforms is highlighted and some recommendation will also be presented at the end of this chapter.

6. *Divestiture of SOEs in India: Lessons from Bangladesh*

This chapter deals the past experience of SOEs and present issues in Indian privatization. This chapter will also take some lessons from the experiences of Bangladesh.

7. *Conclusion*

Conclusion incorporates the major results and findings.

Chapter 2

PRIVATIZATION: THEORY, ISSUES AND METHODS

2.1 INTRODUCTION

The concept of privatization has been defined in different ways in the current discussion on the subject. Like most debates on issues of this kind, it has been either forcefully advocated or vigorously attacked than it has been correctly understood, due to the attendant ideological underpinnings. The rapidity with which privatization has been adopted in many countries has caused a shift in opinions. A decade ago, one would hesitatingly ask, 'Should we privatize?' Now, most people openly ask, 'Why shouldn't we privatize? It is not sufficiently recognized, however, that privatization involves a resolution of conflicting goals and interests where trade-offs become inevitable.[1] Privatization practically presents so many changes. Hank, the pioneer privatization theorist, stated that it is the transfer of assets and service functions from public to private hands.[2] Bos stated that it is the partial or total transfer of enterprises from public to private ownership. As such, it is the precise reverse of nationalization.[3] Galal also stated that the sale of public assets, the introduction of competitive tendering deregulation and the establishment of surrogate markets within public sector organizations are examples of the generic policy referred to as 'privatization'. Privatization, in a broader sense, means giving private actors a greater role in decisions about what, where and how to produce

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1 S.N. Raghavan, *Public Sector in India: Changing Perspectives,* Asian Institute of Transport Development, New Delhi, 1994, p 92.

2 Steve. H. Hanke, *Privatization and Development*, USAID, 1987, p. 4.

3 Dieter Bos, *Privatization: A Theoretical Treatment*, Clarendon Press, Oxford, 1991, p. 2.

goods and services. A great deal of experience has now accumulated regarding this process. Some of it shows the great potential that privatization has for increasing productivity, income and welfare.[4]

Savas expressed his view stated that it has come to symbolize a new way of looking at society's needs, and a rethinking of the role of government in fulfilling them. It means relying more on society's private institutions and less on government to satisfy the needs of the people.[5]

The overall discussion presents a change in the mindset in the government, policy makers, economist, and political thinkers. It is quite obvious that from a poor country like Bangladesh to a developed country like Britain are in the privatization process. In this chapter, we will discuss the various issues involved in privatization. We will also discuss various methods of divestiture, prerequisites of privatization and the role of the governments.

2.2 ISSUES IN PRIVATIZATION

Privatization raises a number of issues. Privatization experts like Hank stated that besides broad issues of economics, privatization raises issues of finance (what financial strategy should be adopted to accomplish a particular privatization objective?), property rights and law (whether the legal structure, especially as it relates to property rights, adequate to support successful privatization?), tax structure

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[4] Galal Ahmed and others (ed.) *Welfare Consequences of Selling Public Enterprises*, Oxford University Press, 1994, pp. 13–14.

[5] E.S, Savas, *Privatization: The Key to Better Government*, Tata Mc Graw-Hill Publication, New Delhi, 1987. p. 3.

(whether tax system encourages private equity ownership?), and especially politics.[6] Steven Cohen had recently pointed out four main issues that should be solved inside the PEs, especially in the process of privatization:

> The modern impulse towards privatization is motivated by various perceived problems that it seeks to solve. The first is the supposed inefficiency of public enterprises due to the absence of the profit motive. The resources obtained by managers in the government sector may not be related to the revenues they generate but to the importance of the service they deliver. The second is the problem of over-formality—too many rules governing hiring, purchasing, budgeting, and the scope of activities that may be undertaken by an organization. The third is political influence in the process of managing activities. A fourth problem, more common outside the United States, is state ownership and financial losses from enterprises that do not perform traditional governmental function (airlines, steel mills, shipyards, rail-roads, auto factories, phone, companies, etc).[7]

Floyd also stated that recently PEs have generally been viewed as individual entities that had no particular role as a stabililization policy instrument in unplanned economies. In reality, this view had little merit since public enterprises pricing and employment policies were frequently manipulated by policymakers, although usually with more concern for political tenure than for macroeconomic stabilization.[8] In this connection transfer of ownership, efficiency, profits and many others social and economic issues are debatable.

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6 Hanke, op. cit. No. 2, p. 4.

7 Steven Cohen, A strategic framework for developing... to the private sector, *Public Administration Review*, July-August 2001, Vol. 61, No. 4, p. 432–433.

8 Robert H. Floyd , Gray S. Clive and Short. R.P, *Public Enterprises in Mixed Economies*: Some Macroeconomic Aspects, International Monatry Fund, Washington, D.C, 1986, p.31.

Arturo states that in principle, privatization represents transfer of ownership from government or quasi-government organizations like state holding companies and public sector corporations to private investors. The scope of privatization has, however, been widened during the discussions of the subject so as to include many other aspects such as leasing, sub-contracting, franchising and disinvestment. These aspects cannot, however, be equated with privatization since they do not affect the ownership structure. They are just policy instruments that may be used by governments for improving the operational efficiency of PEs. This distinction is quite important from an analytical point of view, because proponents of privatization often argue that ownership is a significant determinant of enterprise performance.[9] Generally, in the process of privatization a reformer always wants a change. It reflects in various directions. As economists like Boyeko, Shleifer and Vishney stated:

> By privatization we mean a combination of two changes undertaken by a reformer. The first is turnover of control from spending politicians to managers, often referred to as corporatization. Such turnover can be implemented by a strong reform through the government that effectively suppresses the ministries and the bureaucracy, as happened in Czechoslovakia. Alternatively, such turnover can happen more spontaneously, as the power of bureaucracy to protect its control rights diminishes. Such slow turnover of control from politicians to managers occurred in Russia in the early 1990s.[10]

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[9] Arturo Israel, 'Issues for Infrastructure Management in 1990s' *World Bank Discussion Paper No. 170*, World Bank, Washington, as quoted in Raghavan, op. cit. No. 1, 1992, p. 93.

[10] Maxim Boyeko, Anderi Shleifer and Robert W.V. Vishney, 'A Theory of privatization'. *The Economic Journal*, March 1996, p. 313.

Privatization experts like Andrew Berg and Elliot Berg has pointed out many objectives of privatization. Acoording to them:

> The main objectives, explicit or implicit in most privatization programmes are: fiscal relief by cutting government subsidies to money-losing SOEs and/or by generating new revenues from their sale: increase enterprise efficiency; increased efficiency of the entire economy through more competitive markets and better allocation of resources across firms and sectors; increased political support and broadened institutional underpinnings for a market-based economy or further liberalization. Stronger financial markets increased investment and the stimulation of entrepreneurship.[11]

The World Bank has given many suggestions towards privatization. The World Bank stated that privatization programme should have clearly defined objectives. The government can set these out in policy statements, laws or decrees or in instructions to the officials administering the privatization programme. If these objectives are missing, confusion will develop about why privatization is being pursued.[12] In most of the cases when government objectives and goals are clear but shareholder's expectations are not so, then it is difficult for government to optimize the situation. Sometimes the government is so keen to achieve its revenue objectives that other objectives and issues like manpower, restructuring, and survival of enterprises after privatization are unsolved. We will discuss these issues, especially in case of Bangladesh and India, in the following chapters.

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[11] Andrew Berg and Ellict Berg, Methods of privatization. *Journal of International Affairs*, Winter 1997, p. 359.

[12] Dick Welch and Olivier Fremond, 'The case-by case approach to privatization: techniques and examples', *The World Bank Technical Paper No. 403*, p. 20.

The success of privatization depends on how policy makers are concerned about unsolved issues. Berg and Berg stated that given the wide range of interests affected by any significant privatization, trade-offs will need to be made between stakeholder and government gains and losses. Clearly defined objectives are required to make these trade-offs and to prevent privatization from being bogged down in a welter of unresolved issues.[13] We can see some important issues below.

2.2.1 *Competition and Efficiency*

'Competition and efficiency' are two major targets for any privatization move. The words 'competition' and 'efficiency' may sound different, but both are satisfying the same need. Inefficiency of SOEs is the basic logic behind privatization. The argument of competition through privatization is now very much recognized by the world community. Kilkeri, Nellis and Shirley stated that the economic benefits of privatization are maximized when governments make improvement of efficiency the primary goal. While using privatization to enhance competition and by ensuring a competitive market that reinforces the benefits of privatization, maximization of revenue should not be the primary consideration.[14] David also stated that if the concern pertains to efficiency in broader sense, the contribution that the privatization of public enterprises might make can be evaluated. Even the word 'performance' raises intractable difficulties. In case where profitability is an unreliable measure, it is difficult to judge not only

[13] Berge and Berg, op. cit. No. 11, p. 314.

[14] Sunita Kikeri, Nellis John, Shirley Mary, *Privatization: The Lessons of Experience.* The World Bank Washington, D.C. 1992, p. 6.

the performance of the public enterprises but also the subsequent performance of the denationalized enterprise and therefore whether ownership transfer has been a 'success'.[15] Bos strongly states that privatization changes the efficiency of the firm. It also changes the objectives of the firm. In theoretical abstraction, a fully public firm maximizes welfare, a fully privatized firm maximizes profit. With an increasing extent of privatization, therefore, the firm switches from welfare maximization to profit maximization. [16] The Pareto optimality is not working here, because, profit and welfare cannot work in the same direction where one comes at the cost of the other. We can see the changes, which come in the process of privatization.

Table 2.1
Nature of the Public Enterprises

(i)	Protection by government from Outside import and investment	Emphasis on welfare maximization
(ii)	More workforce, less mechanization	
(iii)	Prices controlled by the government	
(iv)	Social safety nets	

We discussed very clearly this fact that welfare maximization is the ultimate goal for PEs as it is evident from Table 2.1. But in the process of privatization, privatization theory suggests that emphasis is shifted from welfare maximization to profit maximization, as it shown in Table 2.2 below.

[15] David Heald, *Privatization Policies, Methods and Procedures*. Asian Development Bank, Manila, 1985, p. 86.

[16] Diter Bos, 'Privatization of public enterprises'. *European Economic Review*, Vol. 31, 1987, p. 353.

Table 2.2

Nature of the Privatized Enterprises

(i)	Inside and outside competition	Emphasis of profit maximization
(ii)	Private ownership	
(iii)	Fewer workforce and more mechanization	
(iv)	Prices based on profit motives	
(v)	Free outside investment	

Privatization experts suggested that the profit maximization in the privatization process also supports the goal of welfare maximization. Bos is contradicting his remark saying that:

> The efficiency gains from privatization may well lead to both increasing profit and increasing welfare. The efficiency gains can be used to produce at lower costs and to sell at lower prices in such a way that both profit and welfare are improved. Along the path of privatization, share after share is sold, and the economic power in the firm is shifted since more weight will be given to the profit motive in the firm. At some point the private shareholders may enforce profit motive in the firm. At some point the private shareholders may enforce profits in the excess of the cost saving which results from the efficiency gains. In such a situation the profit increases at the expenses of welfare. [17]

However, if the privatization body is not concerned about welfare, then it is very difficult to assess the future of privatization. The best way of privatization is to make a balance between welfare and profit with a wider base of competition. As Ingo Vogel Sang has stated that privatization provides an even stronger commitment. The most

[17] Ibid. p. 355.

important commitment that privatization may carry with involves competition.[18]

Commitment towards competition is not easy because there are certain conflicts on the way of privatization. As Rammurti and Raymond stated that one common conflict is between the desire to privatize quickly and extensively and the desire to maximize proceeds from privatization. Country studies suggest that if a government sells a sufficient volume of state assets, it can make in a tidy sum of money in the short run.[19]

Richard and Mansoor also pointed out that opening up a market for competition and privatization may result in a monopoly position. If competition may not be appropriate, especially when enterprises cross-subsidize loss—making activities—a situation that often arises when enterprises have significant social and other non-commercial objectives—and the private sector can engage in 'cream—skimming'. In such circumstances, the private sector will undertake only profitable activities: the public sector will be left with loss- making activities, for which budgetary support will be required in respect of social objectives. Monopolistic enterprises in both the public and private sectors, especially if they are large, relative to the size of the potential market, can erect strategic price and non-price barriers. Therefore, an appropriate regulatory regime is crucial. However, the design and enforcement of regulations in the private sector have

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18 Ingo Vogel Song, *Public Enterprises in Monopolistic and Oligopolistic Industries,* Harl Wood Academic Publishers, London, 1990, pp.100–01.

19 Ravi Ramamorty and Vernon Raymond, Privatization and control of State owned enterprises. *EDI Development Studies,* World Bank, p. 10.

proved difficult. Often regulators do not have sufficient information to decide whether a particular activity is not competitive. Moreover, once a non-competitive practice has been identified, it may take so long to curtail it that it will already have had its intended effect.[20]

Zank stated that one of the most common fears in Least Developed Countries (LDCs), particularly among the opponents of privatization, is that privatization will result in the transfer of a public monopoly to a private monopoly, and that a private monopoly may lead to an even worse outcome. In other words, exchanging a public monopoly for a private monopoly through privatization may or may not increase society's welfare. Efficiency and welfare gains will depend on the incentive structure and system of rewards employed in public and private firms. In addition to efficiency gains, the success of privatization could also be measured by the value that divested enterprises represent in terms of jobs creation, reduction in debt services, foreign exchange produced and contribution to the Gross Domestic Product (GDP). [21]

Efficiency and competition are the prime agenda for any country in the present world. Production by any enterprise is freely tradable for any country if the product will compete with other enterprises. In the new world trade regime production and consumption of goods and services became the global concern. In these circumstances state

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[20] Richard Hemming and Mansoor. M. Ali; Privatization and Public Enterprises-IMF-Occasional Paper No. 56, 1988, p. 14. (most of the privatized enterprises in Bangladesh has found in the 'cream-skiming' business. We will extensively deal these issues in the chapter 4.)

[21] Neal S. Zank in *Privatization and Economic Efficiency*, (Ed.), Attiat F. Ott and Keith Hartley-Edward Elgar, England, 1991, p. 169.

alone can not meet the global challenge because the role of the state in the modern economy is not only to produce, but also to facilitate the whole process of production. For this purpose, government has to look into the various aspects, especially infrastructure, distribution of raw materials for the production process and many other social objectives (like health, primary education, sanitation) in which private players are less interested to take any responsibility. We will extensively discuss this issue in the section the role of the government.

2.2.2 Ownership

The other important issue in privatization is ownership. Change in ownership is only possible if private parties will acquire more than 51% share of the enterprises. It can be 51%–100%. In the situation where the share of private parties is less that 51% government holds the ownership. It should be noted here that the situation in which government divest 51% share or more than that, is the case of full divestiture or privatization, but if governments divest less than 51% share, it will be the case of partial divestiture. As Vikras and Yarrow argued:

> Ownership arrangements are only one of a variety of factors that influence managerial incentive structures and economic performance, in particular, the competitive structure of the industry in which the firm is operating and the regulatory constraints that it faces will each have significant effects on incentives and hence on both allocative efficiency and internal efficiency. It is likely that privatization will indeed lead managers to place greater weight on profit goals; the

> changes involved are rather more complex than a straightforward shift to profit maximization. The relative performance of publicly and privately owned firms in respect of allocative and internal efficiency will depend upon a range of factors that includes the effectiveness of the respective monitoring systems, the degree of competition in the market, regulatory policy, and the implication of privatization necessarily depends upon empirical assessment of the role and significance of each of these various factors. [22]

The current debate on privatization in developing countries has also focused on the need to rethink on the ownership issue. India and Bangladesh are facing the challenges from the trade unions and other pressure groups. Interestingly, these pressure groups still want to maintain the same form of public ownership in the PEs.

2.2.3 Distributional Aspect of Privatization

In any country, the government cannot start any privatization move without considering its social, political and economic impact. For example, in India the case of 'Modern Food Industry' and the 'Balco privatization' are very obvious.[23] These examples have gradually showed a strong political and labour reaction against privatization. Privatization has many distributional aspects. Although the distributional impact is one of the most important issues in privatization discourse, experts like Ramanadhan stated that some of the redistributions involved are basically in the right direction, but their suddenness coupled with the fact that large groups of people, e.g., employees and

[22] John Vikers and George Yarrow, *Privatization: An Economic Analysis*. The MIT Press, Cambridge, 1988, p. 8.
[23] We will discuss these issues in the chapter on divestiture in India.

consumers, have long been used to certain patterns of benefits, complicates public perceptions and introduces socio-political tension. Thus, it is necessary to introduce proper measures according to country's political and economic circumstances.[24]

Getting benefits from any privatization exercise is not very easy. Ramanadham admitting the situation, in which possibility exit for the sale of SOEs through public offerings, which is attractive because it mutes the charge, that domestic elites or foreign investors are being favoured.[25] The privatization regulator has a major task to see whether public offering process is out of the favouritism. In the following chapter on Bangladesh we will find out this aspect.

Economists have also argued the importance of the time factor in getting the promised distributive benefits from privatization.[26] Jackson and Price have pointed to the importance of the time factor to assess the effect of privatization.

Table 2.3

Economic Effect of Privatization

	Short term	*Long term*
Efficiency	Static efficiency	Dynamic efficiency
Distribution	Distribution of income	Distribution of wealth
Stabilisation	Adjustment to cyclical fluctuations	Structural adjustment

Source: Peter M. Jackson and Catherine M. Price, Privatization and Regulation p. 9.

[24] V.V. Ramanadham, *Privatization and Equity*, Routledge, London, 1995, p. 31.
[25] Ibid, p. 7.
[26] In case of Bangladesh we will try to find out the importance of time factor in getting the benefits of privatization, since many SOEs in Bangladesh have spent a long period after privatization.

Table 2.3 makes it evident that in the short run, the economic effect is limited and change in efficiency is almost static in nature, while in the long run efficiency made an impact in various directions like management, labour, and in the overall structure. Efficiency gain is not a short run exercise, a country study by World Bank 'Bureaucrats in Business' suggests that in most of the cases, due to the unlimited interference of politicians, and the nexus between officials and workers, needs of SOEs could not be met. In that case, it is difficult to think about any long-term privatization effect. We can only see some cyclical fluctuations in this situation. This fluctuation may come in the shape of labour unrest, production losses and other social obligations like low prices of the product. While in case of long run, wealth of enterprises is also distributed. Several times it was seen that in the short run the country is not able to balance the situation because of the poor performance of divested SOEs and poor accountability. In the long run, after a major dilution of shares, divested enterprises can produce more, can deduct the cost, hire skilled labour and reduce the political interference. Fully-privatized firm can adjust with the other external economies because privatization is a major part of the structural adjustment programme. Obviously, privatization is an overall change in the attitude of SOEs. Issues in privatization is changing very fast. Within 10–15 years there have been so many ups and downs in this discourse. This discourse is ranging from profit-making attitude to managing least social cost and create more competition to lessen the burden on the nation's budgets.

2.3 METHODS OF DIVESTITURE

Success of privatization is basically the success of methods. Experiences of the last two–three decades of privatization show the importance of these methods. Selecting a good method is a difficult exercise for any country. In most of the developing countries, 'divestiture' is a tested decision because it leads to the goals of full privatization, step-by-step. We can discuss main method in two different parts, mainly direct divestiture approach and indirect divestiture approach. The main methods to be reviewed here fall into five broad categories: sales of shares or assets; capital dilution; management employee buy-outs (MEBO); broad-based or mass divestiture; and indirect or partial privatization via management contracts, leases or service contracts. After describing each in brief, by providing relevant examples, we would separately discuss the importance of 'Divestiture' as an important method of privatization, even in present days it has become synonymous of privatization because both Bangladesh and India had opted this method as a major policy option. Apart from Bangladesh and India many other developing and developed countries strongly opted for this method.

Here the purpose of a separate discussion on divestiture is to asses the eagerness to implement it by the policy maker. E.S. Savas' statement in this context is remarkable. As he stated that divestiture is straightforward process of identifying the largest white elephant in their portfolio (the one losing the most money), announcing their intention to sell it, and finding a suitable buyer at an acceptable price. [27]

[27] Savas, op, cit. No. 5, p. 244.

Not only largest white elephant, but also many profitable enterprises are also targeted for divestiture across the globe. Divestiture as a policy doesn't make any distinction between profit making and loss incurring SOEs. Along this line, Raghavan claimed that the new owners, managements and employee must have freedom to take timely actions in response to competitive conditions, including restructuring the firm, changing products and prices, changing lines of activity, expanding some activities and closing down others, using sub-contractors, making employment and compensation decisions, and making decisions concerning supplies, engineering, financing, investment, and innovation.[28] It can be understood that divestiture is a stage before privatization. Raghavan states that the objectives of divestiture are broadly similar to those of privatization i.e., improving the performance of PEs, reducing fiscal deficit or generating fiscal income and enabling PEs to function as commercial entities. There is still one important difference—the government renounces its control over the PEs through privatization while it may retain its control even after disinvestments.[29]

The government has to take decision at least on three important issues while adopting disinvestment process. These are:

(i) How much of the equity holding and of which PEs are to be divested;

(ii) To whom the equities are to be sold; and

(iii) What modes are to be adopted for disinvestment?

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[28] Ibid, p. 245.

[29] Raghavan, op. cit. No. 1, p. 109.

The success of any disinvestments depends on these main issues. It was seen that in many developing countries because of very less experiences in divestiture, and also due to the commitment of structural adjustment, disinvestment became the way to just shift on the agenda of privatization. As Raghavan also stated:

> Disinvestment is an integral part of structural adjustment programmes. It is difficult to evaluate the effects of disinvestment because of the trade-offs that are involved, the broad nature of the relevant counter factors and the difficulty in accounting for the externalities that are attributed to disinvestment. Furthermore, disinvestment has been relatively less important in many developing countries as compared to privatization i.e. out-right sale of PEs.[30]

Privatization experts like Ramandham suggested to minimize the prospect of the unfavorable redistribution in the process of divestiture. According to Ramandham:

(i) Divestiture should be affected through public flotation rather than through private sales, as far as possible;

(ii) Concessional share allotments may be subject to restrictions on resale within a set period; and

(iii) Divestiture agreements may stipulate that there can be no retrenchment for a specified period. [31]

Any divestiture programme based on a vague understanding of the enterprises in question will surely run into serious problems. Often failing enterprises won't have annual accounts for the previous three

[30] Ibid, p. 110.

[31] Ramanadham, op. cit. No. 24, p. 24 (We will examine these points in the case of Bangladesh and India in the following chapters.)

or four years.[32] Reports of Commonwealth Round Table discussion presents critical situation on the way of divestiture. It stated:

> The experience of the successful public enterprises suggests that divestment of activities and businesses that are unviable and / or not integrally related to the main purpose and activities of enterprises are not helping to achieve success. It is difficult for the owner of the divested enterprises to take exit decisions and implement them in public enterprises. These involve redundancies in cases of closure, and are politically sensitive matters. On the other hand, hiving off parts of business and selling those to others can have overtones of 'privatization' with its ideological and political fallout.[33]

Experts like Mary and Nellis pointed out some precautions in privatization practice. They stated:

> Divestiture should be viewed, not as an end in itself, but as part of a broader programme of reforms designed to promote a better allocation of resources, encourage competition, foster a supportive environment for entrepreneurial development, and develop the capital market. Weak capital markets make it imperative that the financial prerequisites for divestiture be assessed carefully and be included in the design of sale; otherwise, anomalies can result. Designing a strategy for divestiture and classifying state enterprises according to the type of action they should receive- liquidation, sale, lease, and so on— have been useful steps in clarifying the government's objectives and approach.[34]

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32 Elliot Berge, The Role of Divestiture in Economic Growth, in Privatization & Development (ed.). Hanke, op. cit. No. 2 p. 29.

33 Learning from success, Public enterprises management strategies for success, Report of commonwealth Roundtables, Commonwealth Secretariat, London pp.15-16.

34 Shirley Mary and John Nellis, Public Enterprise reform: The lesson of Experience, EDI Development Studies. *The World Bank* 1991, pp. 57-58.

This strategy also includes the legal aspect of divestiture. Guislain stated that the divestiture law itself should thus be an enabling law, giving the government or privatization agency broad powers to privatize, while avoiding restrictions that might unduly tie the implementing agencies hands and delay the process. While flexible, the legal framework should establish basic safeguards guaranteeing the integrity and efficiency of the process. Clear, flexible and competitive divestiture methods carried out in a transparent manner by accountable official may go a long way to ensure the success of the process.[35]

Divestiture process may be slow, if Economy leads government's intervention. Savas pointed out that divestiture can be partial; however, anything less than 50 per cent may bring in cash but brings none of the other expected benefits of privatization because control will remain in the hands of the state. When government has sold more than half the ownership, it sometimes retains crucial control by means of a 'golden share'. For example, government's minority share may include special veto power over particularly crucial decision, such as sale to a foreign firm.[36]

Governments in developing countries can't ignore social and political issues related to privatization. Especially in core sector governments are still worried about how to divest and to whom should be given the shares. Savas also stated that a crucial issue associated with divestiture in developing countries is who is allowed

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[35] Guislain Pierre, Divestiture of State Entyerprises, 'An Overview of the Legal Framework'. World Bank Technical Paper Number, 186, p. 10.

[36] Savas, op. cit. No. 5, p. 245.

to buy the SOEs. For various political and social reasons, many such countries exclude certain groups from purchasing SOEs, especially foreign businesses multinational corporations and local entrepreneurs of particular minority groups. There is concern that these potential buyers, who may already own or control a large share of the country's economy, will further increase their control. Advocates of economic development through free market argue that no potential buyers should be excluded on the basis of race, nationality or economic position. Moreover, foreign investor can be valuable because they are generally less tolerant of cronyism and other inefficiencies.[37]

In the following chapter on Bangladesh and India, various aspects of divestiture will be discussed. It is evident from the different studies that every divestiture method doesn't fit for every country. The following discussion will focus on the importance of other methods of privatization.

2.3.1 Direct Divestiture Approach

2.3.1.1 *Sale through Public Offering*

The classic type of divestiture is the sale of full or partial ownership of a state enterprise by public offering on stock exchanges by competitive bidding for shares or assets or by non-competitive placement of shares.[38] Under this method, the state sells to the general public through the stock market and other financial

[37] Ibid, p. 246.
[38] Berg and Berg, op. cit. No. 13, p. 360.

institutions. The initial public offering (IPO) is often combined with other methods, such as the sale of shares to employees on favorable terms.[39]

The characteristics of IPOs that make them attractive also make them hard to implement, especially if speed is an objective. Their clarity and transparency bring tremendous transition costs—such as preparation for sale valuations and managing the offer. As a result, only larger SOEs or large government holdings are usually appropriate. Moreover, firms have to be ready for sale. They must be made attractive to buyers. Also market conditions have to be right. Where markets are not buoyant, offerings can fail. This happened recently in Indonesia, Brazil, Turkey and some other countries.[40] Conflicts of objectives are inherent in setting the offer price of shares to be sold. Government may seek a high price to achieve its revenue objectives and to avoid later charges of giving away crown jewels at low prices. The objectives of winning political and market acceptability, however, dictate a low price. But pricing shares too low not only invite later political attack, but also erodes another objective of widespread popular ownership. Low-income buyers and employees sell their holdings if share prices rise rapidly after initial offerings.[41]

These pricing dilemmas and the manner they have been handled have generated some disappointment with privatization in Europe. A

[39] See Berg and Berg, op. cit. No. 13, p. 361, and also Yarrow and Jasinski, Privatization Critical Perspectives on the world Economy-Vol 11, Routiledge, London, 1996, P. 457

[40] Methods of Privatization of State-owned Enterprises—Joseph Boryati. Paper presented at the methods and practices of privatization conference. (New York, 1994) as cited in Berg and Berg, op. cit. No. 13.

[41] Berg and Berg. op. cit. No. 13, p. 362.

recent article in *The Economist* laments the fact that while privatization has broadened financial markets (since 1985 it has added about one per cent a year to capitalization of listed shares in European stock markets), it has not been successful in turning Europe into a continent of shareholders. While 20 per cent of United States households own stocks and around 15 per cent in Britain, the comparable figure for Germany and France is still not more than 5 per cent. One reason is that small investors have not always done well. In France, privatized company shares have underperformed in the market. A consistent buyer of privatized share since 1990 would have in fact lost money.[42]

Mohiuddin presented an example of Bangladesh, which illustrates how stock market flotations of minority ownership shares can fail to improve management, while sale of majority ownership to a technical partner can lead to vastly better performance.[43] Public offering can also be possible by capital dilution. Capital dilution joint ventures are often politically acceptable, since the government retains a large or even majority share in ownership. If the government is a passive owner, allowing full autonomy to the private management, economic efficiency goals are likely to be well served. This approach gives undercapitalized enterprises new life, although problems of working capital scarcity may remain. It also works quickly, especially, where existing partial ownership by a core investor is supplemented by new capital injections. However, risks do exist regarding transparency,

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[42] Privatization in Europe: Is the price right, *The Economist*, London, 23 Nov. 1996, p. 87.

[43] M. Mohiuddin, *Reform of the Bangladeshi Para-Public Sector. Situation and Prospects*, University of Auvergene 1996 cited in op. cit. No. 13, p 364.

equity, notably in setting share's prices. In many countries there are no rules for how share prices should be determined in case of internal acquisition.[44] Recently, Indian stock market has shown a very healthy picture, where shares of SOEs are better-priced than the private enterprises. Berg and Berg stated that given the advantages and difficulties of public offering it is not surprising that they are found principally in the developed world and among the more advanced of the developed world. Indeed, in most of the industrialized countries divestiture has been through public offerings. In low-income and transition economies that have not had well-developed stock markets, financial institutions or regulatory arrangements, IPOs have been much more infrequent.[45] Most of the African, Latin American and South Asian economies are facing this problem.

2.3.1.2 *Sale through Competitive Bidding*

Sale of either part or all of a SOEs shares or assets by public tender is the most common privatization instrument worldwide. Most small firms in the transition economies were privatized by auction, as were many firms in the developing countries.[46] The main purpose of competitive tendering (bidding) is efficiency in the use of public resources.[47] Sale of SOEs through competitive bidding avoids the major deficiency of public flotations: uncertain impact on corporate governance and therefore on improved firm-level efficiency. Most of these transactions entail sales of going concerns; they are of the type

[44] Ibid, p. 372.
[45] Ibid, p. 364.
[46] Ibid, p. 365.
[47] Yarrow George and Piotr Jasinski, op. cit. No. 39, p. 292.

commonly called 'trade sales'. Buyers are technical partners or core investors who will take over management and still have incentives to enhance profitability.[48] More privatization transactions are completed globally by competitive bidding than by any other method. Industrialized countries normally use public flotation method. It is probably the most common method in middle-income developing countries.[49]

2.3.1.3 *Non-competitive Sales or Transfers*

These kinds of sales take many forms. The state may find it advisable to sell to a strategic partner without competitive bidding. This is sometimes called a private placement. A good strategic investor may have made an offer that meets the government's price and other requirements, and officials may decide therefore that further bidding is superfluous.[50] The benefit of non-competitive sales is that they can be cheaper, easier and quicker than alternative methods. Particular technical partners with special competence can be sought out, creating good prospects for more efficient management. Negotiations can be more flexible than those in formal bids. Political and social objectives can be well targeted. For example, shares can be distributed to underprivileged groups, or to employees and other stakeholders or to insurance companies and pension funds. Entrepreneurship-nurturing objectives can be served. The trusts may be able to serve some corporate governance role.[51]

[48] Berg and Berg, op. cit. No.13, p. 367.
[49] Ibid, p. 369.
[50] Ibid, p. 369.
[51] Ibid, p. 371.

2.3.1.4 *Management-Employment Buy-outs (MEBOs)*

The term Management Employee Buy-outs (MEBOs) generally refers to the acquisition of a controlling shareholdings in a company by a small group of managers. It often also designates a similar transaction where employees or management acquire a controlling interest..[52]

MEBOs can have the advantage of their managers and employees retaing their former work. In addition, managers acquire greater responsibility and a stake in their own business.[53] Three main types of MEBOs can be distinguished. In many developing and transition economies, small establishments—for example, retail outlets restaurants, hotels, bookstores, trucks, and buses—are sold to employees. Countless units have been privatized this way, though they do not seem to show up in privatization inventories. One reason is that they are often under $50,000, another is that they may be listed as liquidations, since state enterprises are often legally dissolved before the assets pass into employees' hands. Earle stated that in Eastern Europe and the former Soviet Union thousands of small establishments were privatized by transfer to employees.[54] In Guiyana and Mozambique, dozens of regional food distribution outlets became employee-owned or leased. In Nicaragua, buyouts were encouraged by a policy that set 25 per cent stocks of each privatized firm aside for employees.[55]

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[52] Guide to Management Buy-Outs, 1986–87, *The Economist Publication Limited* 1986, London cited in Yarrow and Jasinski, op. cit. No. 39, p. 471.

[53] Yarrow and Jasinski, op. cit. No. 39, p. 292.

[54] Earle S. Johne *et.al.*, "Small Privatization: The Transformation of Retail Trade and Consumer Services in the Czech Republic, Hungry and Poland", *CEU Privatization Reports*, Vol. 3, 1994 as quoted in Berg and Berg, op. cit. No. 13, p. 375.

[55] Borgathi, as cited in Berg and Berg, op. cit. No. 13, p. 49.

The second type of MEBOs involves employee stock ownership of medium and large-scale enterprises. These are fairly common in industrial countries. The first major privatization of this type was in the United Kingdom with the scale of the National Freight Corporation in 1982 to a consortium of existing and retired employees and four banks with employees taking over 80 per cent of the shares. Examples are also found in developing countries. In Chile, employees bought most of the stock of Squeamish, a sizeable producer of nitrates. When ENDESA, the state-owned power company in Chile, was broken up for privatization, one of the units, EMCL, was sold to employees. There have been similar cases in Asia and elsewhere, though usually of middle-sized companies.[56] A recent example from Pakistan gives the flavour of these transitions. In January 1992 employees of Millat Tractor Limited took over management after purchase of 51 per cent of the shares.[57]

The third and numerically most significant form of MEBOs is de facto insider domination of nominally open privatizations. Most of the Russian industry has been privatized this way. The Russian model took the form of a voucher programme that gave special preferences to employees of state enterprises, usually resulting in MEBOs in practice. In Mongolia, workers chose to buy shares largely in 'their' enterprises, ending up with 45 per cent of the total shares, according to one survey.[58] Most enterprises privatized in Poland have been privatized through so called liquidation. This has taken various

[56] Berg and Berg, op. cit. No. 13, p. 375.

[57] Sharit K. Bhownsik "Takeovers by Employees: A Response to Privatization in Pakistan", *Economic and Political Weekly*, 29 April 95, pp. 931–933.

[58] Kosun Geogres and Peter Murrell. *The Initial Results of Privatization in Mangolia*, (College Park, MD: Centre for Institutional Reform and the Informal Sectoral University of Maryland, 199) as quoted in Berg & Berg, op. cit. No. 13, p. 376.

forms, but involves the sale of either the enterprise or its assets through auction for cash. In most of these, the managers and the workers ended up owning controlling shares after privatization.[59] MEBOs address one of the central obstacles to privatization, particularly in the transition economies where ownership rights and traditions are vague and not well protected: the fact that finding new owners mean disenfranchising existing state holders. Enterprise 'insiders', such as workers and managers, have a traditional and de facto claim on the enterprises.[60]

2.3.1.5 *Mass Divestiture or Full Privatization*

Mass divestiture or full privatization programme privatize hundreds or thousands of enterprises at one time. To make this possible, they generally combine one or more of the above techniques with some sort of free distribution of assets, shares, or buying power over assets (vouchers). This method has either been used or is under consideration in a number of transition economies, including the former Czechoslovakia, Russia, Poland, Romania, Lithuania, Kazakhstan, Kyrgyzstan, and Mongolia. It is the subject of widening discussion as an option in other developing countries, such as Tanzania and Uganda. Rolnald stated that vouchers represents the earmarked equivalent of a cash payment from the government to some qualified beneficieary for the acquisition of some specific product or services from private sector providers. [61]

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[59] Andrew Berg, 'The Logistics of Privatization in Poland' Jeffrey Sachs, Blanchard and Ken Froot (eds.). *NBER Conference on Tradition in Eastern Europe*. University of Chicago Press, Chicago, 1994, p 21.

[60] Bergs & Berg, op. cit. No.13, p. 376.

Poland, apporximatly 500 medium and large enterprises participated in this programme. The designers of the Polish programme transferred most enterprise shares free of charge to 15 National Investment Funds (NIFs). One-third of the shares of each company went as a block to NIFs, ensuring that each company had one owner with a substantial interest and hence incentive to provide good corporate governance.[61] Vouchers were issued to all citizens (150 million) on payment of a small commission, which could subsequently be exchanged for shares (good amount of forgery instred). Over 800 private sector investment funds financial intermediary 'mutual funds' in Czechoslovakia Collected these vouchers and were then required to invest them in enterprises. This programme required an affirmative vote by the workers. Workers received a relatively small share of the privatized firm in effect. They received 10 per cent of the shares free of charge and, while they anticipated some benefits from privatization, they also feared its effects. In the transition economies, almost all industrial production and most output in other sectors were generated in the state sector. The huge scale of privatization alone ruled out the 'classical' sale as a single or main method: it would take decades, except in the East German case where vast subsidies and willing buyers allowed the rapid privatization of some 8,000 enterprises.[62]

There were other reasons for the appeal of this form of privatization. Valuation of state enterprises in these economies was difficult and uncertain, given the lack of a market track record and

[61] Ibid, p. 380.
[62] Ibid, p. 378.

persistent distortions that ruled out easy estimates of existing viability and future profitability. Also, small domestic savings, weak or non-existent capital markets and embryonic market institutions made private buyers few and wary. Foreign investors could and did play some role, but the new governments and the public found the idea of selling of large parts of the economy to foreigners unacceptable.[63]

Berg and Berg has devied Various programs in two components. He stated that in sorting through these various programme, it may be useful to consider that each programme has two components: a 'supply side' which dictates how enterprises will be chosen and prepared for privatization and what will be sold, and a 'demand side' which determines how ownership in the privatized enterprises will be allocated. Each of these 'sides' presents a number of key issues. On the supply side, the preparation of large number of enterprises for privatization in a short amount of time can be extremely difficult. For example, the legal definition of the firm often must be determined i.e., whether it includes shared assets such as a municipal power plant. More importantly, the claims of various existing stakeholders such as workers and managers must be dealt with. As described in the section above on MEBOs, these insiders often have substantial de facto or de jure power over 'their' SOE. These aspects of the problem are related; preparation of enterprises for privatization on a large scale requires the cooperation of the insiders. On the demand side, the problem is how to find owners for hundreds or thousands of enterprises rapidly and in ways that promote good enterprises

[63] Ibid, p. 379.

governance, equity, public support and capital market development. A fundamental question is how widespread distribution of shares or vouchers can translate into effective governance of the privatized enterprises when ownership is extremely diffused and no one owner has much incentive to monitor or discipline management. More generally, the question remains as to whether the pattern that emerges will be conducive to capital market development, including a well-functioning stock market.

It is true that direct approaches of divestiture are based on various issues—both on demand side and supply side. It has close link with the political change, as well as with the economic atmosphere of the country. Even in case of Russia the main aim of the Russian voucher privatization was political first and then economic. In 1992, opinion polls in Russia indicated that privatization was the most popular part of Mr. Yeltsin's programme. However, in many transition economies privatization was first used for economic objectives.

2.3.2 Indirect Divestiture Approaches

2.3.2.1 *Management Contracts*

Management contracts are also a method of privatization. The key issues in success or failure are whether performance is related to the contract terms, and whether managers have true autonomy in hiring and firing.[64] Management contracts privatize management, leaving

[64] Ibid, p. 385.

ownership in state hands.[65] The results of management contracts has shown the improvement in productivity and profitability in some countries. This method is also less controversial since ownership continue in the hand of the state.

2.3.2.2 *Lease Contracts*

Lease contracts are of different types, varying mainly by who is responsible for financing investment. Under straight forward leasing (sometimes called afterimage) the contractor or lessees pays the public owner a fee for the right to operate a public facility and bears the financial risks of its operation. This method is widely used in power, ports, urban transport, waste disposal and industry.[66] In India and Bangladesh this method recently practiced in state run transport, water and electricity departments.

2.3.2.3 *Concession*

Concession is also named as Build Operate Transfer (BOT) and Build Operate Own (BOO). This involves longer contractor responsibility than leases. They also last longer normally within 15 to 30 years. Water supply, waste disposal toll roads and ports are among the common areas of usage.[67] Lease and concession are same in the sound but it can be different in practice on the basis of the time factor. If government is really looking for a change in responsibility but at the same time also trying to retain the ownership then all

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[65] Hand Shaikh, Minovi. M, *Management Contracts: A Review of International Experience*, Washington, DC, World Bank, 1994.

[66] Berg and Berg, p. 386.

[67] Ibid

these methods are easy to practice. Lease contracts are very popular in developing country because it can't provide any great political obstacle on the way of privatization. Government can stop anybody if it will not generate any positive move.

2.3.2.4 *Contracting out*

This is a process whereby government hires, under contract, a private firm to perform, over a defind period of time, some specific service that might otherwise be provided by public employees using government equipment and facilities. Attiat and Hartly stated that contracting out is also known as outsouring or subcontracting, this method is widespread in public-sector service provision. It is an extremely diverse form of privatization, especially common for municipal service, and is widespread in the United States.[68] In a country like India and Bangladesh, this method is also in discussion, especially in higher education.

Indirect approaches are politically less controversial since ownership remains still with the government. However, government should strictly watch the process of indirect approaches, because it can prove to be controversial if the firm involved in these approaches try to set the high price of the product. The example of 'Bechtel' an American water firm in Bolivia was unhealthy, because in 2000 Bechtel had to close shop and leave the country for the high water price, after the mass protest. There are many other examples in this regard in various countries.

[68] Attiat F. Ott and Keith Hartly, (eds.), *Privatization and Economic Efficiency*, Edward Elger, England, 1991, p. 77.

2.3.3 Prerequisites for Privatization

The World Bank listed the following requirements for the success of Privatization.[69]

(a) *Transparency, Fairness and a Level Playing Field:* Transparency is crucial to a successful case-by-case privatization. Third party financial advisers must carry out asset valuations to ensure that prices are realistic, fair, and consistent, as are procedures for calling for bids and evaluating offers. Moreover, government must carefully plan and execute privatization. Publicity campaigns help make potential investors aware of investment opportunities. In trade sales, the contract terms should be included in investment bidding documents to discourage undesirable changes during contract negotiations. Finally, the privatization award process must be transparent to avoid corruption and controversy.

(b) *Strong political support and leadership are vital:* Privatization must receive support from the highest levels of government to overcome inertia and resistance from the bureaucracy and special interest groups. The privatization agency should report to a senior minister.

(c) *Related structural reforms should keep pace with privatization:* Government should implement privatization programme within a framework of mutually reinforcing economic

[69] Dick Welch, Olivier Fremond, The caste-by-case Approach to Privatization Techniques and Examples: The World Bank, Washington, D.C., pp. 2–3.

reforms, including macro-economic stabilization, trade liberalization, financial sector reform, public sector reform, and regulatory reform. If other reforms lag, privatization will be unsustainable and unable to restructure the economy.

(d) *Pre-privatization restructuring should be brief and defensive:* Pre-privatization restructuring should be limited to balance sheet strengthening and organizational changes such as closures, workforce reductions, and transfer of social services. Technology changes, capital investment, and major purchases should be left to the new owners, not to government officials.

(e) *The desire to maximize sale proceeds should be balanced with other priorities:* Although the privatization agency has a duty to sell state assets for their fair market value, it must balance its desire to maximize sale proceeds with other priorities, such as broadening share ownership, deepening domestic capital markets and promoting competition.

Privatization practices without considering prerequisites are unhealthy. In Poland, Czechoslovakia and Russia it was so sudden that it couldn't satisfy each and every prerequisites of privatization. In case of Bangladesh also divestiture was quite sudden and till date country's economic political realities are unable to match the prerequisites. India too is striving hard to meet the prerequisites of privatization.

2.3.4 Role of the Government in Divestiture

The role of the government is very much critical in the process of privatization. Banham's statement is very critical that state's major task is to prevent monopoly.[70] Brain and Spiller's remark is also valuable in this regard: that the benefits of privatization are not automatic but are dependent on the regulatory and competitive environment in which the newly privatized firms operate.[71] Stiglitz states that one of the most important roles for the government is creating the 'rules of the game', which enable a market economy to work. Many developing and transition economies were told to open up their economies to international trade with the promise that it would ensure fair competition. The advice was misguided. Trade liberalization with monopoly imports only served to transfer government revenues into the pockets of the monopolists. In Russia, secretary O'Neill's international aluminum cartel resulted in a bloodbath as rival groups fought over to get monopoly interests, which bought and corrupted governments throughout the world. A strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies.[72] If state is not able to meet the challenge to start competition with preventing monopoly practice then whether enterprises are in the public sector or in the private, they will ultimately work in the same direction. Some experiences have shown a worse face of monopoly in both situation. Monopoly never allows welfare of the people. Monopoly only allows the welfare of the firm, which becomes 'Industry'. Brain and Spiller stated that the change in the trend (public to private) 'should not be viewed as an end in itself

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70 Federic Benham, *Economics: A General Introduction*, ELBS, London, 1960 p. 56.

71 Levy Brain and Spiller, T. Pablo. A comparative analysis of five country studies, proceedings of the World Bank annual conference on Development Economics, 1993, World Bank, p. 216.

72 Joseph Stiglitz, Competing over Competition, *The Economic Times*, 23 August. 2001.

but as a means of improving performance.'[73] Critics like Fishlow question state intervention on the ground that government was the problem rather than the solution. He stated that Blame for the current state of Third World (TW) economies has been attributed by them to policies of state intervention. In their view these have resulted in high levels of debt, poor economic performance, high levels of inflation, excessive unemployment and inefficient public enterprises. An alternative suggested its replacement by the market based on the micro-analytical maximizing framework and modern macro-economic and trade models. This represents a shift from the closed import substitution to a more open export-oriented economy based on the success of countries like south Korea and Tiwan. As the justification for this shift in policy is arguable, there is a need to bring a balance to the debate on the virtues of the market and the weakness of state intervention.[74] Mcpherson also points out 'many countries have found that state-owned enterprises have failed to generate high rates of economic growth that are critical to development'.[75] It is matter of introspection whether the government should continue to produce goods and provide services or leave it for the private sector.

Stiglitz and Stern stated on the role of the government in this crucial situation:

> The issue that has been more recently under debate is whether the government should be involved in production or should government leave production, that is privatize? In poor and backward economies,

[73] Levy Brain and Spiller op. cit. No. 75, p. 216.

[74] See, Albert Fishlow,in "Review of Handbook of Development Economics", *Journal of Economic Literature*, Vol. 29, 1991, pp. 1728-1737.

[75] Peter M. Mcpherson , The promise of Privatization, in Hanke op. cit. No. 2, p. 18.

> market failures may be more severe, but the same is also true of government failure. How do these considerations balance? I would suggest, notwithstanding the weakness of management and the scarcity of resources in poor countries, that there are certain crucial activities for which the government should take responsibility. In poor economies, infrastructure, health services, and education are usually weak. Here, surely, are areas where government can act and be assisted with resources and know-how from wealthier countries and international institutions. [76]

Jalan was also very much sure about the criticality of this role in Indian context. He stated that The government's role as an investor in and manager of public enterprises is probably the most controversial and difficult. However, not even the most ardent defender of public enterprises can ignore the substantial inefficiencies that afflict government's management of these enterprises.[77]

It is up to the government whether it creates a healthy competition or waits for failure. Without a strong governmental commitment we cannot facilitate reform. When the market failed we developed SOEs and when SOEs failed we developed privatization. But the question, which looms large, is what would happen if privatization fails? It is high time to think about what should be the next step in this regard. Stiglitz pointed out that the time is ripe for a new third way consensus, a balanced view of markets and government, a refusal to confuse means (like privatization and liberalization) with ends, and a broad conception of those ends—not higher GDP, not increased

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[76] Joseph Stiglitz, Stern Nicholas, Round Table Discussion Development Strategies: The Role of the State and Private Sector, Annual conference on Development Economics, 1990, World bank, pp. 429–431.

[77] Bimal Jalan, *India's Economic Crisis: The Way Ahead*, OUP, New Delhi, 1992, p. 73.

income for the few, but the creation of domestic, equitable, and sustained growth.[78] Privatization experts claimed that nature abhors a vacuum; representatives of business and commerce are filling up the space vacated by the state. This is the time to make some corrections over past mistakes and to take new steps in the world of competition through privatization. Privatization should not aim and act for private purposes only.

2.3.5 Conclusion

Theoretical aspects, various issues, methods and minimum requirement for the success of privatization are briefly discussed in this chapter. These are essential for a good understanding of the privatization programme of any country. After the analysis, methods of privatization, happen to be the most important deciding factors for the success of privatization. Privatization should not be a way to exchange public monopoly with private monopoly. Choosing a proper methodology of privatization is more important issue, which should be internally discussed in the economy. It is difficult for every method to suit every country, but the suitability of a method depends on the regulatory practice and the prerequisites of privatization. Just like other economic policies, privatization also needs an internal and an external support base. Political support for the long run benefits can decide the capability of a country in the age of competition. The role of the government is very much deciding in the privatization. Government's duty is very critical in the developing economies because the conditions of enterprises are more critical before and

[78] Joseph Stiglitz, To a third way consensus, *The Economic times*, 6 June, 2001.

after privatization as compared to other developed countries. On the way of direct and indirect divestiture methods, policy makers should not only quickly shift on one policy to other one but they should also choose any method with a proper evaluation of the prerequisites of privatization. It was observed that in most of the transition economies divestiture was very fast but in terms of getting benefits it was very slow. Privatization practice should be for the credible privatization not to discredit the privatization. It can only be possible if the distribution of shares is transparent and government is keen to lead the competition.

In the history of the last century, privatization has been an important exercise. More than 120 countries are doing this exercise through various methods. In transition economies political interference are quite high because SOEs are the part of political issues like election and local employment. Providing employment for the working hand is one of the difficult jobs for the government. Divestiture is directly linked with the issue of employment in the transition economies. Apart from this issue there are also other issues like the distribution of the benefits, competition, efficiency and the survival of the divested enterprises. Bangladesh, which started privatization programmes as a major policy option in 1976, has been in trouble. The debate of profit maximization and welfare maximization is also a matter of test and quest in Bangladesh. A mixed experience of success and failure of privatization in Bangladesh and a brief study of Indian divestiture is the main concern of the following chapters.

Chapter 3

NATIONALIZATION TO PRIVATIZATION: POLICY SHIFT IN BANGLADESH

3.1 INTRODUCTION

The partition of India at independence in 1947, followed by the break-up of Pakistan in 1971, left erstwhile East Bengal (present Bangladesh) to face the remaining years of seventies and beyond, with a rapidly growing population, a fragile farming system, rising landlessness, few capital resources, degraded infrastructure, a decimated intelligentsia, a relatively uniform yet precarious ecology arising from deltaic topography, the absence of democratic tradition with an over-reliance upon the military and bureaucracy to secure policy and political objectives, and an overwhelming dependency upon foreign aid and technical assistance.[1] East Pakistan, presently Bangladesh, was in all respect the worst of the three regions (others being India and Pakistan). It had been one of the most neglected parts of the British empire even in comparison to West Bengal. Its economy had been greatly damaged at the end of the 18th century.[2] May be that was the cause of the Bangabandhu Sheikh Mujibur Rahman's reaction at the Round Table Conference on 10th March 1969 in which he said:

> I would like at this time to confine myself to outlining the constitutional changes, which are necessary for the attainment of economic justice, between man and man and between region and region.[3]

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1 Kramsjo Boss and Wood. D, *Breaking the Chains*, University Press Limited, Dhaka, 1992, p. 1.

2 Gilbert Etienne, 'The process of Industrialization in India, Pakistan and Bangladesh', *South Asia Journal* 3, 1990, p. 239.

3 *Bangladesh Contemporary Events and Documents*, Peoples Republic of Bangladesh, Dhaka, 1971, p. 37.

Economic infrastructure and market systems built by the British were not equitably shared by East Bengal in comparison to West Pakistan and India. Even though those systems and tariff policies were designed to favour British interests and despite these economic institutions, a fairly solid framework was gradually built up that eventually paid dividends as reflected in the development of indigenous industry in India after independence. However, the same didn't take place in Bangladesh, where local participation in the economy was essentially limited to real estate speculation and petty trading. The climate did not favor the emergence of a Bengali capital market in the industrial sectors.[4]

During the period 1947–1971, life in East Pakistan was relatively tranquil.[5] Only 4% of GDP was generated in the industrial sector and almost all of it in small and cottage industries. Interestingly, during the time when Bangladesh was part of Pakistan, industries grew rapidly. Growth averaged 6.6% per annum during the period of Financial Year 50 (FY 50) to FY 70 and was concentrated in the large- and medium-scale industries (which grew at a rate of 14.5%, compared to only 2.5% per annum for small-scale industry). Investment increased from less than Rs. 400 million in FY 64 (in constant price cf FY 70) to more than Rs. one billion by FY 70. Approximately 25% of all investment was effected in the industrial sector, even though it produced less than 10% of GDP.[6] Between 1947 and 1950, the total regional income of East Pakistan was

[4] Clare E. Humpherey. , *Privatization in Bangladesh*, University Press Limited, Dhaka, 1992, p. 21.

[5] Joseph F. Stepanek. , *Bangladesh: Equitable Growth?* Pergamon Press, New York, 1979, p. 7.

[6] 'Bangladesh: Current Trends and Development Issues', *The World Bank Country Study*, March, 1979. p. 42.

almost certainly higher than that of West Pakistan.[7] This was clearly depicted in various studies by Khandar, Papanek, Khan and Bergan.[8] The picture was altered when West Pakistan's income exceeded East's for the first time in 1954–55.[9] On industrial front especially in large industries, we can see the slow industrial growth of East Pakistan in Table 3.1.

Table 3.1

Regional Value Added in Large-scale Industry at Constant Price 1959-60 (Rs. crores)

Year	*West*	*East*
1 947-48	10	7
1948-49	14	8
1949-50	18	12
1950-51	24	16
1951-52	35	18
1952-53	46	20
1953-54	56	25
1954-55	79	31
1955-56	93	35
1956-57	102	40
1957-58	116	43
1958-59	130	52

Source: G.F. Papanek, "Industrial Production and Investment in Pakistan".

[7] Arjun Sengupta , in *Bangladesh Economy: Problems and Prospects,* (ed.V.K.R.V. Rao), Vikas Publication, New Delhi, 1972, p. 18.

[8] R.H Khandar 'The Pattern of a Divided Economy: A National Income Analysis of India and Pakistan', *The Journal of Royal Statistical Society,* General Series, 1955. G.F. Papǎnak, 'Indutrial Production and Investment in Pakistan", Pakistan Development Review, 1964, Khan and Bergan, 'Measerment of Structural Change in the Pakistan Economy: A Review of National Income Estimates', *Pakistan Development Review, 1966.*

[9] Sengupta, op. cit. No. 7, p. 19.

In Table 3.1: Large-scale firms: definition-a unit using power employing more than 30 workers any day in the year. From 1947–1959; value added by firms with assets of less than Rs. 1 million increased only 15 times, while that added by larger firms increased 15 times. In 1951–52, index for East Pakistan was 98.9, for West Pakistan 90.6. This was applied to 1947–51 years for which no index is available.

East Pakistan was worsening rapidly and the question of more economic justice was strongly raised. It facilitated the eventual freedom struggle out of which East Pakistan became an independent nation called Bangladesh. Since its independence in the words of Austin Robinson, the question that one constantly asked is: Is Bangladesh viable? To that question an economist has no answers.[10]

3.2 Mujib's Socialism

After the independence of Bangladesh in 1971 the country tried to take a socialist line. Stepanek stated that government was implementing a wide-ranging 'socialistic transformation', which had been promised during the independence struggle. Sheikh Mujibur Rahman personalized this political and economic revolution into the 'Four-pillars of Mujibism' named for the people for whom Sheikh always spoke. These four pillars proclaimed that nation-building was to be

[10] Austin Robinson, *Economic Prospects of Bangladesh*, Overseas Development Institute Ltd., London, 1973, p. 46.

found upon the principles of secularism, democracy, nationalism, and socialism. The country's first Five Year Plan was announced in late 1973. The first long-range plan stressed the broad goals of increased production, improved income distribution, and national self-reliance, the Sheikh's 'socialistic transformation'[11].

In the First Five Year Plan, it was the public sector which was accepted as the main engine of growth.[12] The Constitution of Bangladesh lays down that the economy shall be built up on socialist lines. It provides for three types of ownership—'private, co-operative and state.[13] Sheikh Mujib was very much inspired by the Indian development model, as during that period India was a very strong supporter of socialistic transformation. Indian public sector units were well developed and in the all three Five Year Plans (after independence) India had a satisfactory success in various fields. At the time of independence in Bangladesh, India was at the peak of nationalization. In 1969, many banks were nationalized and many basic industries were established. The social transformation and the heavy nationalization in Bangladesh was a case of following the Indian developmental pattern. Stepanek stated that the fourth pillar of Mujibism—socialism—also had deep roots in the country's

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[11] Stepanek, op. cit. No. 5, p. 8.

[12] *The Forth Five Year Plan, Revised Draft-II*, Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka, March 1991, p. vi-i.

[13] Nurul Islam, *'The Economic Development of Bangladesh within a Socialistic Framework'* (ed. Robinson. E.A.G. and Griffin. K) Macmillan, London, 1974, p. 13.

previous exploitation. Ten public sector corporations were established in March, 1972 to bring the largely private Pakistani industrial sector under government control. This type of socialism included the country's jute and cotton textile industries, its tea estates and sugar refineries, the former Pakistani banks, insurance companies, inland water and air transport, a major portion of the foreign trade.[14]

Bangladesh inherited a large, private sector dominated economy at the time of its independence in 1971. The exodus of non-Bengali entrepreneurs witnessed nationalization of 725 industries as commercial enterprises. These units were brought under the control of management boards that were appointed and supervised by the various ministries.[15] The nationalization of 1972 was widely interpreted as a major step towards effecting a socialist transformation of Bangladesh and was acclaimed as a positive step by many who were inspired by socialist ideals, but deplored almost universally by those who disapproved of socialism either as a goal or as a method of development. Socialism is of course a word that is inscribed on banners of widely differing colours. It is, therefore, hard to make sense of this statement without a more specific definition of the term. It was often claimed, particularly by the defenders of nationalization, that the events of 1972 represented the first stage of a programme that would go far beyond social democracy and would probably evolve

[14] Stepanek, op. cit. No. 5, p. 8.

[15] Nazmal Husain and Zakaria. S.M, *'Bangladesh's Privatization Experience'* in Libral Times, Vol. VIII, No. 2, 2000, p. 4.

into some form of 'orthodox' socialism.[16] The proclamation of socialism as one of the four pillars of state policy had limited theoretical foundations and in practice amounted to the extention of the public sector and some popular measures such as writing off land revenue for holdings under eight acres.[17]

Mujib's socialism was an outcome of the dissatisfaction of the East Pakistan under the Pakistan's rule. It was supported by the mass because it found a new vision for Bangladesh, which was neglected and exploited by the previous rulers.

3.3 Nationalization of Enterprises

Bangladesh inherited a largely private sector dominated economy at the time of its liberation in 1971. But with the wholesale nationalization immediately after liberation, several thousand industrial, commercial and financial enterprises came under government control. As a result, the government's control over the fixed assets of the industrial sector shot up from 34% of pre-liberation period to 92% by 1972.[18] For the purposes of control, supervision and coordination of the aforesaid nationalized enterprises, several corporations were established under the

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16 Azizur Rahman Khan and Hossain Mahabub, *The Strategy of Development in Bangladesh*, Macmillan, London, 1989, p. 84.

17 Rehman Sobhan, *Bangladesh: Problems of Governance*, University Press Limited, Dhaka, 1995, pp. 158-59.

18 C.A.F. Dowlah, *Privatization Experience in Bangladesh*, 1991-96, Vol. 1 (Study undertaken for the World Bank), Dhaka, 1997, pp. vi-vii.

provision of the President's order No. 27 of 1972.[19] Sobhan and Ahmad stated that this order effectively nationalized the industrial sector, fulfilling an Awami League promise made in a highly successful election campaign in mid-1970. The party's 'manifesto' had received widespread support from the public, who had seen nationalization of financial and industrial sectors as a way to forestall concentration of wealth in a few hands. This had been the general public sentiment even before the break up with Pakistan. At that time, the notorious 22 leading families of West Pakistan had dominated the concern. In 1972, it was directed at Bangladesh's own fledging industrial capitalist community.[20] It was evident that the nationalization policy of Bangladesh came into force to counter the mistakes made by the policy makers of Pakistan.

In 1971, one of the most pressing problems for Bangladesh was to find out ways to restart the numerous former West Pakistani–owned or managed industrial enterprises.[21]A study by World Bank stated that industrial production grew at an average rate of 8% per annum in East Pakistan during the 1960s, but fell sharply immediately after independence due to the severe shortage of foreign exchange to

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19 Bangladesh Jute Mill Corporation, Bangladesh Cotton Mills Corporations, Bangladesh Sugar Mills Corporation, Bangladesh Steel Mills Corporation, Bangladesh Paper and Board Corporation, Bangladesh Fertilizer, Chemical and Pharmaceutical Corporation, Bangladesh Engineering and Ship-building Corporation, Bangladesh Minerals, Oil and Gas Corporation, Bangladesh Food and Allied Products Corporations, Bangladesh Tanneries Corporation.

20 Rahman Sobhan and Ahmad. M, Public Enterprises in Intermediate Regime: A Study in the Political Economy of Bangladesh, BIDS, Dhaka, 1980, p. 122.

21 Humpherey. op. cit. No. 4, p. 28.

import raw materials and the physical disruptions caused during the war. Although the availability of foreign exchange to the industrial sector had improved, the timing of foreign exchange allocations still presented a problem. The index of overall industrial production in financial year (FY) 73 was 19% lower than the FY 70 level.[22]

A different World Bank study also stated that the SOE sector grew rapidly in Bangladesh during the period 1971-75. The reasons for this spectacular growth were: first, historical circumstance (the government was forced to take possession of business 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.[23]

The Second Five Year Plan document stated

> Since independence, the public sector has come to play a dominant role in the economy of Bangladesh. Its scope has been widened by the nationalization of major industries and by the objective necessity that the private sector had been historically dependent on the support from the public sector. The size and composition of Government development spending had, therefore, been extremely important in determining the rate of economic growth. The first Five Year Plan provided for public sector development expenditure of Tk. 3,952 crore or 89% of the total financial allocation of Tk 4,455 crore. The size of the public sector programme in the Two Year Plan was Tk. 3,261 crore

[22] *Bangladesh Current Trends and Development Issues*, op. cit No. 6, p. 44.

[23] *Bangladesh: Privatization and Adjustment*, Report No. 12318-BD, World Bank, Washington, March 10, 1994, p. i.

> representing 84% of the total development outlay of Tk. 3, 861. Total public sector development expenditure during the First Plan and the Two year Plan period was estimated at current prices at Tk 8,095 crore-Tk. 4, 162 crore respectively. [24]

However, PEs right from the beginning could not run profitably and efficiently and many of them ran into severe financial difficulties and serious management problems. Due to interference by the trade union leaders in the management of enterprises, excessive work force, inexperience and inability of the officials to act as efficient entrepreneurs, etc., besides various other reasons, accounted for a chaotic condition in the nationalized sector and became a burden for the government. Alamgir stated that the programme of nationalization in Bangladesh has been plagued by many problems. The absence of autonomy at the corporation and enterprise level and also the involvement of a large agencies in the decision making process have been mentioned by many as seriously limiting the operational efficiency of the public sector enterprises, mainly the nationalized industries in the post –independence Bangladesh[25].

World Bank study stated about the loss in the power sector:

> In relation to the poor performance of the SOEs and a shift in the production structure in the world, goods and services supplied by SOEs had become uncompetitive in domestic as well as international markets. The high systems loss in the Power Development Board

[24] The Second Five Year Plan Draft-1985-90, Planning Commission, Governments of the People's Republic of Bangladesh, Dhaka, May 1980, p. I-18.

[25] Mohiuddin Alamgir, Nationalized Industries of Bangladesh: Problems and Prospects, *The Bangladesh Development Studies*, ... p. 704.

> ranging from (35–40%) had led to successive increase 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 Bangladesh Power Development Board (BPDB). As a result, Bangladesh has one of the lowest consumption levels and highest prices of electricity in the region (South Asia). Accompanying this is the high risk of technical failure due to overloading and lack of maintenance. [26]

Not only in power sector but entire economy was in crisis just after the independence. Khan stated that the real testing time for Mujib and his ideology was the year 1974, with no more massive international aid for Bangladesh. This was the year which finally determined whether or not Mujib's charisma and ideology could prevent one of the poorest nations of the world from total economic ruin and the consequent disruption of its social and political life. With 1974 culminating in Mujib's declaration of national emergency suspending civil rights and bringing about a one-party rule, the problems confronting Mujib and his government seemed to loom larger than ever. The price rise of commodities had accelerated; corruption was going on unbated; economic planning involving mainly population control and agriculture based industries were floundering; political violence seemed to be on the rise and frustration among the fixed-income groups about the government's inability or unwillingness to do something about these massive problems were bordering on hopelessness.[27] Etienne also stated that

[26] *Bangladesh: Privatization and Adjustment*, op. cit. No. 23, p. 17.

[27] Zilluar R. Khan, *The Third World Charismat*, UPL, Dhaka, 1996, pp. 221-222.

the constant disturbances and unrest in the country, what with the assassination of Mujib in 1975, and the assassination of his successor Ziaur Rahman in 1981, stalled the emergence of a coherent economic policy. This had been made more difficult by the damages of the war on an already weak infrastructure. Sheikh Mujib and his economic advisers then opted for a socialist policy. The government took over the private West Pakistani companies but ran into all kinds of difficulties. It was no less difficult to run the public sector corporations left by the Pakistanis. On the whole, for many years the industrial sector remained sluggish in Bangladesh.[28] Economists started thinking what went wrong with nationalization.

Economist like Momtazuddin Ahmed stated:

> Soon the government realized that nationalization was hasty and without adequate preparation for efficient management of the nationalized industries. While some people would try to justify the takeover of abandoned enterprises as a situational necessity, the wholesale nationalization of the Bengali-owned jute and cotton textile industries was an outcome of the ideological conviction of some members of the ruling party and of handful of economists working at the planning commission during that time. [29]

Jute and textile industries were under huge losses. World Bank study stated that 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 encouraged smuggling.

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[28] Etienne, op. cit. No. 2, p. 244.

[29] Momtazuddin Ahmed, 'Privatization in Bangladesh', in *Privatization in South Asia* ed. Gopal Joshi, International Labour Organisation, New Delhi, 2000, p. 10.

BTMC also failed to supply fabric to the readymade garments sector, which depended entirely on imports for its rapid export growth. A dynamic textile industry, supplying materials to the readymade garments sector could have helped to increase value addition in garments exports by another 10%–20% resulting in increased domestic employment and net foreign exchange earnings. All SOE paper mills were old and had higher costs of production compared to other countries. Prices for paper and newsprint had been raised to cover costs of wastage and inefficiencies.[30] The most important large scale nationalized industry, i.e., jute industry, continued to suffer losses for years and illustrates the range of factors, including exchange rate policy, which contribute to losses in the manufacturing sector.[31]

Ahmed also agreed with the situation, which was responsible for the losses of jute and other SOEs. He stated:

> The absence of a clear vision about the goals of the nationalization programme, lack of trained and efficient management to run the SOEs, excessive over-staffing of the SOEs, rigid wage structures and controlled pricing policies etc., turned the nationalized industries into loss-making concerns. These concerns thrived on huge state subsidies, which proved to be exceedingly costly to the national exchequer and caused the national economy to stagnate and suffer from corruption and operational inefficiencies.[32]

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[30] Bangladesh: Privatization and Adjustment, op. cit No. 23, p. 17.

[31] Islam Nurul, *Development Strategy of Bangladesh*, Pergamon Press, Oxford, 1978, p. 59.

[32] Ahmed Momtazuddin, op. cit No. 29, pp. 11-12.

In the manufacturing sector also the government admitted to the huge loss. According to the Planning Commission:

> Most Manufacturing Public Enterprises (MPEs) have shown poor financial performance and losses totalled Tk. 450 crore during 1980–81 through 1988–89. As a result, these enterprises have become dependent on allocations from the Annual Development Programmes and advances from the Nationalized Commercial Banks (NCBs). Outstanding advances from the NCBs to the MPEs at the end of 1986–87 amounted to Tk. 1000 crore. The net claims on the government budget by all the public enterprises rose from 0.8% to 3.2% of GDP between 1985–86 and 1988–89. The continued poor financial performance of the MPEs thus compete for scarce government resources and make little contribution to domestic resource mobilisation. Major reasons for poor performance of the MPEs include, among others, the inability to abide by standard commercial practices, insufficient management autonomy and accountability over-employment, weak financial structure, etc. The deficit of Bangladesh Railway and those of the post office department have accounted for a serious drain on government resources. The contribution of the NCBs to the national exchequer has also not been satisfactory because of the serious financial problems they themselves had fallen into.[33]

Nurul Islam, one of the proponents of nationalization, pointed out factors for the efficiency of the public enterprises:

> It is necessary to ensure a structure of incentives and institutions in the public sector to contribute to efficiency. The most critical factors in respect of incentives and institutional arrangements are the delegation of authority from the government to the industrial enterprises and an

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[33] *The Fourth Five Year Plan*, op. cit No. 12, p. iv-2.

> appropriate system of accountability and rewards and penalties linked to the clearly articulated criterion of efficiency.[34]

World Bank's special study on privatization criticized the performance of SOEs. The World Bank stated:

> The performance of the SOEs deteriorated and they came under heavy criticism for inefficiencies and corruption. In response to their worsening financial condition, successive government since 1975 announced (or attempted) one or the other kind of privatization programme. Notwithstanding successive divestments, some 235 enterprises continue to remain under public ownership. Inspite of their relative small share of the economy (6% of GDP, 1% of labour 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.[35]

The World Bank also gave some other causes of poor performance of SOEs including wide-ranging objectives of the SOEs. The World Bank stated that SOEs 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 that enterprises had a wide range of objectives, maximizing profits being the fifth out of six objectives. These other objectives include: contributing to the national development, providing goods to consumers, providing

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[34] Nurul Islam, op. cit. No. 31, p. 59.

[35] *Bangladesh: Privatization and Adjustment*, op. cit. No. 23, 1994, p. i.

employment, providing revenue to government, maximizing profits and developing local area. Laudable but unfocussed objectives of contributing to national development and providing employment were ranked higher.[36] A different study by the World Bank also pointed out the government's unrealistic objectives:

> It appears that the government should make a sharp distinction between the immediate objectives of the public corporations and the wider objectives of economic and social policy. At present, the public sector corporations carry the weight of various disparate objectives. They are charged not only with the production of certain commodities, but they also have to retain on their staff large and increasing numbers of redundant personnel and are required to sell products deemed to be of essential social importance (such as sugar, textile, edible oil and pharmaceuticals) below cost. This makes it difficult for these enterprises to regain their financial health.[37]

One more discussion paper by the World Bank has highlighted some other causes of losses made by the SOEs. But it also made some positive comments. It states:

> The government made a move in this direction in 1976 when it issued guidelines aimed at providing maximum commercial autonomy to individual enterprises. Significant progress has been made in recent years in the implementation of these guidelines, although individual enterprises still need to obtain greater freedom in personnel management and in the day-to-day conduct of their marketing and purchasing operations.[38]

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[36] Ibid, p. 15.

[37] *World Bank Country Study*, op. cit. No. 6, p. 48.

[38] Ibid, p. 49.

The most remarkable aspect in the large scale-manufacturing sector has been the widespread prevalence of excess capacity and consequent inefficient use of capital.[39] In brief we can summarize some other causes of SOEs losses and the recommendation of the World Bank, made in 1979:

> The reward structure should be geared to giving managers and workers strong incentives to operate their plant efficiently and profitably. Training of industrial personnel at all levels needs increased attention. Only 2% of mill managers have relevant professional qualifications and only 14% of senior managers have received in-service training. The annual supply of only 1, 400 skilled workers was obviously out of proportion with the needs of a sector employing 300, 000 workers or with the annual supply of 700 engineers and 2, 100 technicians. The increasing departure of workers to the Middle East was also one of the related problems of the SOEs losses. Personnel at the supervisory and management levels were also migrating in substantial numbers. The efficiency of many enterprises was directly related to the many years of neglect of plant maintenance and to the insufficient resources available for spare parts and replacements.[40]

The Fourth Plan pointed out:

> Public utilities like the Railways and the Post Office department remained in deficit throughout the Third Plan period. The deficit of railways increased to Tk. 160 crore in 1989–90 from Tk. 63 crore in 1984–85 and total deficit amounted to Tk. 712 crore during the plan period. To restrain the deficit, railway passenger fare per mile increased from Tk. 0.14 in 1984–85 to Tk. 0.27 in 1989–90 and railway

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[39] N. Islam, op. cit No. 34, p. 58.

[40] *World Bank Country Study*, op. cit. No. 6, p. 49.

> fright per ton-mile increased from Tk. 1.57 in 1984–85 to Tk. 2.32 in 1989–90. Tariff on ordinary domestic mail was increased from Tk. 1 to Tk. 2 in 1989. The postal charges for overseas mail increased by 50% in 1986-87 and again by another 20% in 1987–88. The Bangladesh Telegraph and Telephone Board was the only public utility that earned profits during the Third Plan Period. The telephone rate for a local call increased from Tk. 1 to Tk. 1.70 in 1989.[41]

Rahman Sobhan, one of the proponents of the nationalization policy also admitted that most sectors of the economy were underutilized in the power, transport, education, and manufacturing and even in the rural sectors. Railway, public road transport capacity was heavily under-utilized. The pressure to negotiate more aid to enhance capacity rather than capacity utilization has made planning for the transport sector into a zero sum game.[42]

The government frantically searched the country's managers for these enterprises and properties. Experienced managers were in short supply in Bangladesh, especially among Bengali Muslims. To run the enterprises, the government recruited from the ranks of civil servants, merchants, union leaders, supervisory employees of the firms themselves, and even outsiders.[43] Nationalization has not created an atmosphere in which SOEs could efficiently work. Proponents of nationalization, Government of Bangladesh, as well as the World Bank accepted SOEs inefficiency. It was clearly accepted on every front that SOEs were incurring huge losses. Lack of

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[41] The Fourth Five Year Plan, op. cit. No. 34, p. iv-7.

[42] Rahman Sobhan, *The Crisis of External Dependence*, UPL, Dhaka, 1993, p. 221.

[43] Humpherey, op. cit. No. 4, p. 29.

managers, high rate of electricity, underutilization of resources, corruption, multiplicity of goals, technical backwardness, rent-seeking exercises and government's ideological shift have considered as the causes for the inefficiency and losses in Bangladesh. The divestiture/privatization came out to solve these issue. In the next section we will examine the shift in the industrial-economic policy in relation to divestiture/privatization.

3.4 INDUSTRIAL ECONOMIC POLICY SHIFT

3.4.1 The Period: 1971-75 (Restrictions on private sector)

Bangladesh was a late starter in the process of industrialization. Before 1971, some simple process industries like jute, textile and sugar mills, two pulp and paper mills, a small urea fertilizer plant, a cement factory, a 'mini' steel making plant with imbalanced downstream rolling facilities for making mild steel bars, sheets, and plates, a few pharmaceutical units with capacities for formulation, bottling and packaging and several minor dockyards and light engineering workshops comprised the industrial base of the country. In the early years after independence, private investment in industry was deliberately discouraged as a matter of state policy: exception was in regard to small and cottage industries.[44] The nationalization policy of 1972 was accompanied by the imposition of limits on private investment. New investment in the private sector was allowed in

[44] Deena R. Khatkhate, 'The Regulatory Impediments to the Private Industrial Sector Development in Asia', *World Bank Discussion Paper 177*, p. 52.

fewer units with assets of not more than Tk. 2.5 million. The government reserved the right to nationalize at any time. The basic rationale was that the private industrialists were not to be allowed to grow into big capitalists.[45] As a result, the first industrial policy statement which was issued in January 1973 left the private sector with virtually no other areas to operate except in cottage and small industries, within the investment ceiling of Tk. 25 lakh, could be raise to a maximum of Tk. 35 lakh through reinvestment of profits.[46]

From the beginning it was seen that there was a continuous clamour on the part of the corporation and enterprise management for liberal allocation of domestic finance to which the government responded with easy bank credit. The fact remains that not all of the enterprises can claim productive utilization of funds. On the contrary, this has added to the inflationary pressure in the economy. During 1972, the nationalized industries alone were responsible for an increase in the money supply to the tune of Tk. 130 crores. Easy credit seems to have made enterprises less cost conscious and it is no wonder that within a short time after liberation, cost of production shot up manifold in most of the public sector enterprises. For example, in jute manufacturing, on an average, the cost of sales soared from Tk. 2172 per ton during 1969–70 to Tk. 3804 during July-December, 1972.[47] The issue of corruption started just after the

[45] A.M. Quamrul Alam, 'Privatization Policy and the Problem of Industrial Development in Bangladesh', *South Asia*, Vol. XII, No. 2, 1989, p. 53.

[46] Sadral Raza and Shelly Mizaur Rahman, *Privatizing Industrial Regulatory Functions in Bangladesh*, UPL, Dhaka, 1994, p. 9.

[47] Alamgir Mohiuddin, op. cit. No. 25, p. 704.

liberation. Humphry stated that government-appointed managers were not only inept, but had engaged in such outrageous corruption that a very profitable enterprise, *Re-Rolling Mills Limited* was in jeopardy. The system created an atmosphere in which wealth got accumulated in the hands of a few greedy leaders. Observers have called it 'State Capitalism' or 'Capitalist Nationalization[48].

Huphry also stated that it comes as a surprise to most that there were approximately 120 divestitures consummated during the Mujib period. Most of the units were disinvested because they were small and unprofitable. However a few units were disinvested due to indebtness and labour problems.[49] Sadiq states that the policy of nationalization of the early 1970s left a very difficult legacy of labour militancy, overemployment, corruption and management inefficiency, and all contributed to heavy financial losses and a severe overhang of debt in the industrial sector from which the country is yet to recover. There is still a significant involvement of the public sector in the management of industrial enterprises many of which don't have a ready market for privatization due to mistakes made during the chaos following liberation.[50]

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[48] The mill abandoned by the owner at the time of liberation war, was nationalized and then transferred to the ex-owner Akbarali. The ex-owner of the mill Akberali is so close to the Mujib that this mill was transferred to Akberali as early as in August 1972 only on the government's request. See the detailed story of corruption in Humphrey, op. cit. No. 4, pp. 34-38.

[49] Ibid, p. 38.

[50] Sadiq Ahmed, 'Bangladesh Since Independence: Development Performance, Constraints and Challenges', *Bangladesh Journal of Political Economy*, Vol. XV, No. p. 13, 2001.

After the independence of Bangladesh, the overall objective of the First Five Year Plan (1973–78) was to attain a self-reliant stage through the domestic production of basic needs and investment goods.[51] The landmark President Order (No. 27) on March 26, 1972, which nationalized the major section of industry, left private sector with a very limited role in the economy. Khan and Hossain stated that private sector participation in industries had been restricted through implementation of 'Reserved list' for the public sector. The number of industries reserved for the public sector was limited to eighteen in Revised Industrial Policy (RIP) 1974. Other than jute, cotton textile and sugar, all other industries were exclusively retained in the public sector during the pre-independence period as well.[52] Sahota came out with some figures in BIDS study saying that the number was reduced to eight whereas ten sectors were put on the concurrent list in 1975.[53]

Sobhan and Ahmed stated in a different study by BIDS:

> It was also realized that the nationalization policy, which did not spell out the role of the private sector, could in the future lead to contradictions in the conduct of state policy. The issue was, however, not pressed largely for tactical reasons. It was felt that the nationalization package was itself sufficiently drastic for the upper

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[51] *Fifth Five Year Plan, Document*, Planning Commission, Ministry of Planning, Government of Bangladesh, 1997-2002, Dhaka, p. 287.

[52] Khan and Hossain, The Strategy of Development in Bangladesh, OECD Development Centre, 1989, p. 81.

[53] Sahota, A Historical Survey of Small Industries in Bangladesh, Working Paper No. 16, HIID/ESEPP Project Planning Commission as cited in BIDS Research Report No. 142, 1996, p. 7.

> bourgeoisie and their supporters. The dominant ideological premise of the nationalization policies was to prevent the growth of the upper bourgeoisies. It was realized that a nationalized policy, which did not spell out the role of the private sector could in the future lead to contradictions in the conduct of state policy. The issue was, however, not pressed, largely for tactical reasons. It was felt that the nationalization package was itself sufficiently drastic for the upper bourgeoisie and their backers. If they realized that this was itself, part of a policy to completely pre-empt the development of their class, their resistance may have become sufficiently implacable to prejudice the nationalization policy itself. [54]

It was noted that the nationalization policy of SOEs was not able to fulfill the demand of the economy. The ignorance of the private industrialist has created a situation where policy shift from nationalization to denationalization was an urgent need. Just after independence, SOEs in Bangladesh incurred huge losses. Inefficiency at the managerial level and corruption at political and bureaucratic levels has created a situation where the appropriate policy became vital for Bangladesh. We can see the shift in the policy during different period.

3.4.2 The Period: 1975-81 (Liberal atmosphere for private sector)

The earliest attempts at privatization began soon after independence in 1971. The difference between the shift from Naticnalization to partial divestiture in Bangladesh was not more than four years. Humphrey claimed that even in the Mujib's period many SOEs was

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[54] Sobhan and Ahmed, op. cit. No. 20, pp. 198-204.

divested by the Director General of Industry (DGI). A special study on privatization on Bangladesh stated that 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 setup 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 authority looking after charge of privatization at the time.[55]

During the period of 1975–81 the government followed a policy of gradual denationalization. Some sectors were kept under state ownership, the rest were opened to domestic and foreign private capital investment. The provision of nationalization in the future was deleted; a tax holiday and other incentives were offered. Industrial financing institutions were directed to provide equity support to prospective industrialists.[56] To improve the performance of public enterprises, the government had implemented several measures over the past few years. In addition to denationalization of selected public enterprises, the government tried to improve the performance of the remaining enterprises through financial and physical rehabilitation and measures to improve management autonomy, pricing policies and performance monitoring. However, despite these measures, the financial performance of public enterprises continued to remain poor.

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55 *Bangladesh: Privatization and Adjustment*, op. cit. No. 23, p. 108.

56 *The Investment Corporation of Bangladesh Ordinance*, No. XL1976, Ministry of Industries, GOB, Dhaka.

In order to augment the domestic resources position in the public sector, it was desirable that the government should receive a financial return of the large amount of resources it has invested in public enterprises. Towards that end, further measures were to be taken and implemented for improving the financial performance of public enterprises particularly the manufacturing public enterprises. BIDS study stated that there were some incentives provided by the government. A preferential electricity rate for selected industries was introduced in RIP 1975. Which continued till 1982. Another major initiative to attract investors was the establishment of Investment Corporation of Bangladesh (ICB) in 1975. It was emphasized that new industries to be set up in less developed areas shall get preferential treatment in respect of equity financing from Bangladesh Shilpa Bank (BSB) and ICB.[57]

The activities of the private sector are subject to numerous bureaucratic controls in South Asia. Immediately after independence, the scope for the private sector was severely limited, but the government later liberalized its stance and began to give greater recognition to the role of the private sector, raising the investment ceiling and permitting private investment in areas earlier reserved for the public sector. These factors have led to a rising volume of private investment, particularly in FY 78 when investment approvals increased by about 50% over the previous year.[58] The improved investment climate resulted in increased and broad activity by the private sector, especially in 1976–77. These approved investment

[57] Salam Chaudhuri Zohir, "An assessment of industrial policy in Bangladesh: What Policies are we talking about", *BIDS, Research Report* No. op. cit. No. 53, p. 43.

[58] *Bangladesh: Privatization and Adjustment*, op. cit. No-23, p. i.

projects included various fields.[59] The Constitution was amended by the Martial Law proclaimed order of 1977 to allow the denationalization and divestiture of jute, textile and other enterprises.[60] Prior to 1982 it had also identified some free sectors.[61] NIP 1978 declared that no prior approval/permission was necessary for setting up industries falling under the 10 sub-sectors of industries. From the beginning, government had demarcated areas on the basis of developed and less developed region. The idea of demarcation continued till further industrial policies, but the government realized the need for certain incentives for industry. [62]

Following a series of violent political changes, which began in August 1975, the investment ceiling for private industries was raised by the Ziaur Rahman regime in a series of steps to Tk. 100 million and then was completely abolished in 1978. Between 1975 and 1978, the government sold 116 enterprises to the private sector. A number of other measures designed to promote modern private industry were implemented, e.g., the reopening of the stock market in 1976, the establishment of the Investment Corporation of Bangladesh to provide bridge financing and underwriting facilities to the private sector and the abolition of restriction on collaboration between

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[59] Ventures in deep sea fishing, synthetic and specialized textiles, garment manufacturing, footwear, weaving, canning, pharmaceuticals, plastic and rubber, ship repair, barrages of river barges, engineering works, etc. It should be noted that all of these were areas in which the public sector was not active, or had recently reduced its presence through divestiture. For more detailed discussion on his topic we can see Humphrey op. cit. No. 4, p. 52.

[60] Sahota, *BIDS Research Report*, op. cit. No. 53, p. 4.

[61] These sectors required no formal sanction, provided the foreign exchange necessary to import machinery and equipment, were provided by entrepreneurs themselves under either wage earners schemes or non-reportable foreign investment.

[62] *The Fourth Five Year Plan*, op. cit. No. 12, p. iv-120.

domestic private industries and direct foreign investment.[63] Bangladesh embarked on a major macroeconomic stabilization programme in the mid-1980s that coincided with the launching of Third Five Year Plan.[64]

The imposition of military rule in early 1982 was followed by the adoption of the New Industrial Policy in June of the same year. Under this policy, large-scale denationalization occurred and in particular the jute and cotton textile mills, which had been taken over from Bangladeshi industrialists in 1972, were restored to their former owners. Of the 72 jute mills in the public sector on 30th June 1982, 34 (accounting for 38% of production capacity) were denationalized by June 1985. Of the 52 cotton textile mills in operation in the public sector on 30th June 1982, 22 were denationalized within one year of the announcement of the New Industrial Policy.[65]

Austin Robinson presented an early picture of the aid in 1973 stated:

> Bangladesh economic policy, in reaction against what have been regarded as the extortions of the brash capitalism personified by Pakistani entrepreneurs has swung toward a moderate socialism with a large public sector. Wrongly, it may be, but nonetheless understandably, a majority of intelligent Bangladeshis believe that American aid administrators and economic advisers forced the brash capitalism that they are exercising upon them.[66]

The industrial denationdization policy under the umbrella of macro-economic stabilization programe has assisted Bangladesh in terms of aid. Zank stated that the aid assisted in the partial privatization of

[63] Khan and Hossain, op. cit. No. 16, p. 82.

[64] *The Fourth Five Year Plan*, op. cit No. 12, p. iv-3.

[65] Khan and Hossain, op. cit. No. 16, p. 82.

[66] Robinson Austin, op. cit. No. 10, p. 51.

the Bangladesh Agriculture Development Corporation (BADC). Efforts have focused on promoting full competition in all aspects of fertilizers marketing and pricing. Under the first phase of the fertilizer distribution improvement project, aid expanded the role of the private sector in performing critical retail market functions and wholesaling at the local level, formerly controlled by the BADC. In phase two, the role of private sector wholesalers was expanded at the regional and the national levels.[67] Many people criticized the dark part of the aid policy.

Sobhan presented the entire picture of Bangladesh's aid drama in 1993 almost after 20 years of Robinson's observation. He stated:

> Bangladesh's policy makers continue to wait upon decision in Washington, London, Tokyo, Bonn and Paris before they formulated there annual development budgets, announced an import policy, formulated a food policy, or even decided how many children should be born. The decision-makers of the developed world control the lifeline of any regime in Bangladesh and can bring havoc on the life of a country in a way, which was inconceivable two decades ago. The sovereignty of the Bangladesh nation state, in its prevailing social configuration, was therefore likely to remain a polite fiction which was perpetuated by the courtesy of the donors as long as Bangladesh did not challenge their current strategic assumption and ideological preconceptions.[68]

[67] Neal S. Zank in *Privatization and Economic Efficiency*, Attiat F. Ott and Kaith Hartley Ed, Edward Elgar, England, 1991, P. 176.

[68] Sobhan, op. cit. No. 42, p. 226.

In the six years of the Zia regime, a total of 255 SOEs were divested or privatized in one way or another.[69] Thirty of these were the last of the 'enemy' cum vested properties originally confiscated from Indians during the Pakistan period. Another 115 were small firms divested through the office of the Director General of Industries (DGI), similar to the small units unloaded during the Mujib period. (See Table 3.2).[70]

Table 3.2

Small Firms Divested Through the Director General of Industry (DGI)

Metal working	8
Rubber products	11
Paper and printing	7
Vegetable oils	16
Rice and/or flour mills	21
Textiles and hosiery	10
Soap and chemicals	4
Films	3
Jute rope	2
Ice and cold storage	3
Hotels	2
Trading	3
Engineering	5
Wood products	4
Glass and optical	3
Salt	2
Miscellaneous	11
Total	**115**

Source: C.E. Humphrey, p. 57.

69 Information by Ministry of Industry as quoted by Humphy op. cit. No. 4, p. 56.

70 Ibid, p. 56.

There were 110 larger entities housed in the corporations, which were divested from the Corporation as is evident from Table 3.3.

Table 3.3
Divested Enterprises from Corporations

Tanneries, hides and bones	25
Metal works	17
Textiles	11
Jute products	7
Tobacco	6
Rubber products	5
Food products	5
Vegetable oils	5
Matches	4
Ice and cold storage	4
Engineering	3
Chemicals and Pharmaceuticals	3
Miscellaneous	10
Total	**110**

Source: C.E. Humphrey, p. 58.

Privatization and private sector development were advanced significantly during the period of President Zia (1975–81). The politics was basically liberal, but carried out with more caution than conviction.[71] The emphasis on policy was more than its implementation and as with the predecessor government, no well-thought-out plan with coherent objectives was ever developed.[72] The

[71] "I did not go to break up a party", *The Tide: A Special Issue*, Feb-March, 1987. Stated by Moudud Ahmed, then Deputy Prime Minister and Ministry of Industries in an interview with the Dhaka Publication as quoted by Humphrey, op. cit. No. 4, p. 58.

[72] Humprey, op. cit. No. 4, p. 58.

concept of a mixed economy its importance in defining roles for a public-private partnership was not widely understood, much less accepted and implemented.[73] There was always lack of guidelines for private sector. The absence of a proper policy of private sector and the failure of major public sector units created unique economic situation in Bangladesh. This was an economy where one could see the total non co-existence between public and private sector. It was a situation where military government embarked on a major privatization exercise. Till 1981–82, ownership of large-scale industries lay only with the government. Table 3.4 can be referred to for more details in this regard.

Table 3.4

Ownership of Large-scale Industries, 1981/82 (% of total Industries)

	Nationalized	*Joint*	*Private*
Book value of fixed assets	69.1	2.5	28.4
Value added	61.5	9.3	29.2
Employment: All workers	72.1	1.5	26.4
Production workers	73.5	1.0	25.5
Wage bill	76.8	4.5	18.7

Source: CMI 1881/82, Detailed Report cited in Khan Azizur Rahman and Hossain Mahabub, p. 82

Table 3.4 shows that the joint sector has a silent role in the Bangladesh economy. The private sector which accounted for almost one-fifth part in the large scale industry, did not show any great role.

[73] Ibid, p. 58.

This also presented a clear indication that till 1982, the burden on public sector (in terms of wage bill, employment, production worker employment) was almost three times greater than private sector. These indications presented an unbalanced nature of industrial development in Bangladesh. We can also compare some other features of nationalized and private industries till 1982 in Table 3.5. Which shows that value addition in private sector is greater than public sector; surplus per unit in private sector is double than that of public sector. Wages as per cent of value addition is double in public sector but value addition of per worker is higher in private sector. This indicates a situation where public sector was incurring loss.

Table 3.5

Comparative Features of Nationalized and Private Industries

	Nationalized	*Private*
Fixed assets per worker (Tk. of book Value)	29339	32962
Value added per worker (Tk.)	19387	25125
Value added per production worker (Tk.)	24360	33270
Wages per worker (all workers: Tk. per year)	11900	7902
Wages as per cent of Value added	61.4	31.5
Value added per unit of book value of fixed assets	0.66	0.76
Surplus per unit of book value of fixed assets	0.25	0.52

Source: CMI 1881/82, Detailed Report cited in Khan Azizur Rahman and Hossain Mahabub, p. 83.

We can also compare the macroeconomic policy of the Mujib and Zia regimes in Table 3.6.

Table 3.6
Qualitative Comparison of Macroeconomic Policies Between the Mujib and Zia Regimes, 1973-1981

	The Mujib period (1972-75)	*The Zia period (1975/76-1980/81)*
Type of political regime	Parliamentary Democracy, later authoritarian	Military-civilian (Mixed), later transitional democracy
Base of political power	Intermediate class	Multiclass, but a tilt towards the rich
Type of state	Extreme weak	Moderately weak
Foreign policy	Pro-India and pro-soviet Union	Pro America and pro-china
Foreign aid	Limited	Moderately large
Industrial policy	Socialist, limited role for the private sector	Emphasis on the private sector, but the public sector remained large
Agriculture policy	Private Agriculture; large government subsidies on inputs; and some control over agricultural prices	Private agriculture; low subsidies on agriculture inputs; removal of controls over agriculture prices
Fiscal and monetary policy	Expansionary	Moderately expansionary
Credit policy	Expansionary	Moderately expansionary
Interest-rate policy	Repressive	Moderately repressive
Exchange-rate policy	Repressive	Moderately repressive
Taxation -policy	Expansionary	Expansionary
Income policy	Partial adjustment of wages to inflation	Complete adjustment of wages to Inflation
Subsidies on public utilities and industrial inputs	Massive	Moderate
Foreign trade	State controlled; nationalized	Moderately liberalized emphasis on private trade
Capital outflows	Strictly controlled	Moderately controlled

Source: *Atahar Hossain, Macroeconomic Issues and Policies: The Case of Bangladesh, Sage Publications, New Delhi, 1996, p. 89*

3.4.3 The Period: 1982-91 (Extensive divestiture/privatization)

Ultimately the New Industrial Policy announced in 1982 by the government was a clear indication of the previous mistakes done by the policy makers. In 1982, the New Industrial Policy envisaged a massive programme of disinvestments of public sector industrial units, especially in jute and cotton textile sectors. A second element of the reform included denationalization/disinvestments of banks and insurance companies. The decision to permit Bangladeshis to set up private commercial banks and specialized financial institutions with their own capital or in collaboration with foreign capital in 1977-78 effectively ended the monopoly of commercial banking by the NCBs. In 1978, the decision was taken to breach the exclusive jurisdiction of the state over insurance company by permitting a number of private insurance companies to be set up in competition with the state sector.[74] It can be easily seen that the policy towards the entry of private sector through the divestiture policy had become the part of the government plan prior to 1980.

In NIP 1982, the government for the first time recognized the major role of private sector in the process of industrial development of the country. These policies were further strengthened in 1986. It is generally recognized that the NIP 1982 introduced, among other

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74 See Sen Binayak, "Privatization in Bangladesh :Process, Dynamics and Implication" in ed., V Kanesalingam, *Privatization Trends and Experiences in South Asia Macmillan, 1991,* p. 18 and Sobhan Rahman, The Development of Private Sector in Bangladesh: A Review of the Evolution and Outcomes of State Policy, *BIDS Research Report*, op. cit. No. 20, pp. 22-23.

things, reserved list for public investment, a concurrent list where both public and private investment can take place and an industrial investment schedule (IIS) for all other industries in the private sector.[75] It is apparent from data that investment as a per cent of GDP has stagnated around 14% during the period 1976–88. Along with the sacking of SOEs through divestiture, the NIP 1982 has adopted programmes to improve the performance of remaining units through financial and physical rehabilitation and various measures were designed to improve management autonomy, pricing policies and performance monitoring. Thus, the capital and debt structure of a number of enterprises have been improved by conversion of debt to equity and substantial infusion of additional equity. Under the SOEs ordinance of 1986, substantial autonomy to adjust prices has been granted to public enterprises, except for those producing a small number of monopoly and sensitive items.[76]

The target of domestic resource mobilization in the public sector remained largely unfulfilled during the Third Plan period. An overly cautious fiscal management subsequently helped to reduce the budget deficit whose main brunt was borne by the public sector development progamme. A weak domestic demand resulted in a slacking of growth in the industrial sector, which had definite implications for a shortfall in domestic resource mobilization. In the

[75] Salam Chauduri Zohir in BIDS, Research report, op. cit. No. 53, pp. 10–11.

[76] Ibid, p. 6.

midst of the stabilization programme designed to reduce external and fiscal deficit, the country experienced an unprecedented series of natural disasters. The government's current expenditure during the Third Plan increased at a rapid pace. As a result, revenue surplus in the public sector fell short by 71% from the original target. Total revenue surplus during the Third Plan stood at Tk. 1,451 crore as against the target of Tk. 4983 crore both at 1984/85 prices.[77]

During the first four years (1985–89) of Third Five Year Plan (TFYP) a total of 35 public enterprises were disinvested and transferred to private sector, and during 1989–90 another four public enterprises are expected to be disinvested in order to create more confidence among private entrepreneurs for boosting private investment in this sector.[78] Implementation of the privatization programme for MPEs during 1981–82 to 1986–87 reduced the size of public sector significantly (about 40%). In addition to disinvestments, measures were also introduced to deregulate private investment sanctioning procedures, relax import control and to provide positive export incentives. These reforms contributed to improving the policy environment with beneficial effects on private sector industrial activities.[79]

[77] Fourth Five Year Plan, op. cit. No. 12, p. iv-3.

[78] Ibid, p. xi-8.

[79] Ibid, p. xi-15.

Fourth Five Year Plan document stated:

> Under the denationalization amendment Ordinance of June, 1987 financially profitable enterprises of the public sector corporations are being divested retaining 51% share for the government, 34% for the general public and the remaining 15% to the PE employees. These are being managed as companies giving more managerial autonomy through the enterprises Board, where, five out of nine Board members are appointed by the Corporation in place of the government, three are appointed by the general public (share holder) and one by the employees, if they acquire at least 15% share allocated to them. This divestiture process will be continued and possibility of further improving it allowing improvement in the formation of strong capital market through this process will also be attempted during the Fourth Five Year Plan (FFYP). Large private sector participation in share holding, operation and management of public enterprises shall be explored during FFYP.[80]

To improve the budgetary control and monitoring, a System for Autonomous Bodies Reporting and Evaluation (SABRE) was introduced in ten enterprises in 1987–88 and another ten enterprises in 1988–89.[81] NIP 1982 saw a clear-cut change in the industrial policy and can be treated as a turning point in the industrial history of Bangladesh. From there on, Bangladesh always looked for a more privatized world. The years 1986, 1988 and 1989 were the years which have continuously strengthened the industrial policy's motives of divestiture.

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[80] Ibid, P. xi-15.

[81] BIDS Research Report, op, cit, No. 53, p. 6.

3.4.4 The Period: 1991 Onwards (Slow pace of privatization)

The industrial policy of 1991 which was formulated in the light of promoting a competitive market economy and which was further revised in 1992 laid down basic strategies required for industrial development of the country. All industries have now been opened up for private investment, both domestic and foreign (except a selected few related to national security like arms and ammunition, nuclear energy, minting and security printing, mechanized extraction in the reserved forest and the railways).[82] GOB has recently recognized the need for further reform. The industrial policy of 1999 stated that the government is mindful of the fact that a continuous process of reform is necessary to propel the industrial sector of Bangladesh to take-off stage.[83]

In the industrial policy of 1999, the government again admitted the fact that without reform nothing could be possible. Some objectives of this policy clearly indicated that government is keen to accelerate the process of SOEs reform. These objectives are:

(i) To focus the role of the government as a facilitator in creating an enabling environment for expanding private investment;

(ii) To permit public undertaking only in those industrial activities where public sector involvement is essential to

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[82] *Fifth Five Year Plan*, op. cit. No. 51, p. 301.

[83] *Industrial Policy 1999*, Ministry of Industries, GOB, Dhaka, p. 1.

facilitate the growth of the private sector and /or where there are overriding social concerns to be accommodated; and

(iii) To enhance operational efficiency in all remaining public manufacturing enterprises through appropriate management restructuring and pursuit of market-oriented policies.

Industrial policy of 1999 has strongly admitted to speed up privatization. The policy stated that public sector enterprises will be progressively privatized and public industrial investment will be limited to only those cases where there is special need to complement private investment or where there is an overriding social and national objective to be achieved.[84]

The government also stressed on the other aspects of SOEs reform which are:

(a) The present policy of privatization of public manufacturing enterprises will be vigorously pursued.

(b) Investment by public sector will be limited to the Reserved Industries[85]. Future public investment in the industrial sector will be residual in nature. Public enterprises will be encouraged to supplement and compete with the private sector.

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[84] Ibid, p. 4.

[85] (a) Arms and Ammunition and other defence Equipment and machinery, (b) Forest plantation and mechanized extraction within the bounds of reserved forest, (c) Production of Nuclear energy, (d) Security printing (Currency Notes) and minting.

(c) Existing public enterprises will be given autonomy to be run on sound commercial principles. The government will try to improve the management of public enterprises through corrective measures and may invite foreign collaborator/investor to enter into technical collaboration or management contracts to make these industries competitive. State-owned enterprises may be disinvested to enterprise workers in special cases under Employee Owned Stock option Plan (ESOP).

Sobhan, one of the most important person in the overall discussion stated on the shift in policy:

> The GOB took a series of policy decisions to divest itself of a large number of public enterprises and to divest it of some of the shares in those enterprises to be retained within its control. The premise of this policy was, however, never made explicit. The GOB appeared to share the concern of the Zia Government that it should delimit the managerial responsibilities of public corporations. But the underlying principle of what should be an appropriate managerial span was not spelt out. It was suggested that loss-making enterprises should be sold off. But in practice, no distinction was made between loss and profit making enterprises when public enterprises were put on the auction bloc. By some irony some of the biggest loss making enterprises in the jute, textile, sugar and steel sector remain under public ownership today with no indication that they will be sold off or some of them divested. However a number of highly profitable and modernized public enterprises, in the chemical, food, engineering and textile sector were disinvested. It is difficult to assess whether policy changes introduced

> prior to 1975 to extend the frontiers at private enterprise would have had any discernible impact on private enterprises. What passed for private enterprises in the 1972–75 period was diverted into trade, intermediation and various forms of rent seeking economic activity, which served to eat into the surpluses of the public enterprises and reduce their economic viability. It would thus be quite legitimate to assume that any decisive initiative to push the frontiers of private enterprises outward was the direct result of the regime change in 1975. [86]

Policy shift from nationalization to divestiture carried out an over-burdened SOEs in terms of losses, debt of nationalized bank, and ill-management. In this situation divestiture has exercised at a very high pace. The new ruler Zia reduced the role and importance of the public investment and the role of private investment has promoted. Divestiture in Bangladesh has started at the same time when some other developed countries started it as a major policy option for SEOs reform.[87]. But those steps before 1975 were not derived as a major divestiture policy of the GOB. In the period of 1975–90, Bangladesh became a leader of privatization. Even a recognized authority such as Elliot Berg was prompted to call Bangladesh 'a champion performer in the world of privatization or divestiture[88]. The World Bank reports repeatedly assert that the New Industrial Policy 1982 (NIP) had carried out one of the most extensive denationalization programmes

[86] Rahman Sobhan, op. cit. No. 17, pp. 165-168.

[87] Humphrey op. cit. No. 4, p. 91.

of public sector enterprises in the world.[88] We will extensively analyze the performance of divested enterprises and other related issues of divestiture in the next chapter.

3.5 CONCLUSION

Bangladesh's SOEs have been in trouble not only after the independence of the country, but from the beginning of the colonial industrialization in South Asian region. Bangladesh was a trader's economy from the beginning of the colonial industrialization. In this kind of an economy, there is always lack of support from the industrialist's side. Countries First Five Year Plan and the first industrial policy tried to provide a wider industrial base through nationalization of enterprises but political unrest after Mujib's period was quite challenging to sustain those policies. Bangladesh's nationalization was a perplexed one. It was seen that government was keen to nationalize a large number of enterprises after independence but by that time it was also seen that more then 100 enterprises also divested quickly just after the nationalization. Nationalization worked with divestiture since beginning itself.

It was seen from the beginning itself that the public enterprises were burdened with the over-expectations of stakeholders. This has led the loss-incurring situation in SOEs. The industrial policies were

88 *BIDS Research Report*, op. cit. No. 53, p. 4.

extreme in nature. The industrial policy of 1971 was extremely public sector oriented. Government's macro-economic policy changed just after the assassination of Mujib in 1975. Since 1975 to till date, industrial policies of Bangladesh were shifted from one extreme to another. GOB never tried for a greater public–private mix. The basic aim of the military regime was to establish a strong government at any cost. Mujib's policies of nationalization suffered a lot because of his political ambitions. The economy paid a huge cost for the political ambition. The basic aim of the policy makers was to run the country and create a situation in which they could take more authoritative dicisons. Divestiture was deliberately forced in Bangladesh. The process of restructuring before divestiture was less concerned for the policy makers. State controlled industrial system became a liberal industrial system in which the policy makers forgot a major section of the society. Zia had planted private business and also started the process of denationalization just after 1975. In a very dramatic political and economic situation, Bangladesh started a wide range of divestiture programmes. But one cannot ignore this fact that just after five years of independence the country did not have too much space for sudden reforms. The difference of nationalization policy between Bangladesh and India is that whereas in India it was a decision taken by the industrialists (*Bombay Plan,* 1944), which was considered by the government but in Bangladesh it was a decision of the followers of Mujib who were basically academicians like Nurul

Islam and Rahman Sobhan. This couldn't mean that academicians were not able to take a wise decision, but that decision was less practical and more theoretical.

Due to the country's political unrest and the bad impression of the economy in terms of overall efficiency, very few outside investors have taken interest even after the government's total shift from nationalization. India has a proper support base with regard to their own industrialist. Bangladesh had very less support in this regard. In this situation, dependence on aid or subsidies became a permanent feature of the Bangladesh economy. Bangladesh became an aid laboratory for donors in 1980s. A poor economic base, less number of the industrialists, weak political support and enormous expectations from the public enterprises, created a different situation for Bangladesh. If one can look back on the changes in industrial policies, then the four phases present different pictures: 1971–75 can be treated as years of restriction on private sector; 1975–81 were the years of comparatively liberal atmosphere for private sector with divestiture of few SOEs; 1982–91 were the years of private sector with extensive divestiture programme; and from 1991 onwards we can consider it as the continuation of the previous policy but the slow pace of privatization.

It would be quite correct to say that due to a very different situation, Bangladesh started a new wave of reform in which divestiture/ privatization of SOEs has taken an impetus. The next chapter will try to examine the performance of privatized enterprises through various case studies; it will also try to examine the various past studies on divestiture and different aspects of political economy. It includes interviews and discussion with stakeholders in privatization at the time of fieldwork to Dhaka and adjoining area Tejpur in Bangladesh in March 2003.

Chapter 4

DIVESTITURE IN BANGLADESH

4.1 INTRODUCTION

The results of divestiture of SOEs have become very much interesting in the last four to five years. Major findings on post-divestiture experience came out during the period 1997–1999. Experts like Sen, Akash, Akram, and Sobhan claimed that Bangladesh has a limited success in privatization. But study by the World Bank claims that privatization has a great success in Bangladesh. Major finding on this topic is contradictory. This section will try to find out the real picture of divestiture (privatization) exercise through the assessment of various fieldworks in Dhaka and adjoining industrial area Tejpur.

4.2 EMPIRICAL CONTRADICTIONS

Binayak Sen's study is one of the major studies in this regard.[1] His study was strict to 205 divested enterprises during the period 1979–1995, which was almost 40% of the total divested enterprises till that period in Bangladesh. Sen has not studied almost 60% divested enterprises because the size of those enterprises was very small with sales value falling below Tk. 2.5 lakh. We have summarized some of the major findings of Sen's study and also tried to link the Sen's findings with the present status of privatization in Bangladesh. We have summarized it as follows:

(i) Most of the enterprises were divested in the first half of the eighties, accounting for 74% of the sample. The peak period

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[1] Binayak Sen, *Whether Privatization: Results of an Exploratory Survey of the Disinvested Industries in Bangladesh*, Mimeo, 1997.

is 1982–84, which alone claims a share of 55% [Table-1]. The pace of privatization has slowed down since then. We have also calculated the approximate number after the Sen's analyzed period and found that the tendency of slow pace is still exiting and the peak period of divestiture/privatization was before 1985. Almost in the last 20 years the pace of divestiture/ privatization is never shown the same nature. Although the recent numbers are small compared to the record of late seventies or early eighties, a number of important public enterprises were privatized during the nineties. See in Table 4.1.

Table 4.1
Divestiture during different Periods

Period	*Number*
1979–85	179
1986–95	24
1995–03*	25

Source: Data for the period 1978–85 and 1986–95 is based on the Sen's Findings, which do not include very small-divested enterprises with sales value falling below Tk 2.5-lakh. *Data during the period 1995–2003 is based on the quick estimation by the researcher in the field, Dhaka and Tejpur, Bangladesh, March 2003.

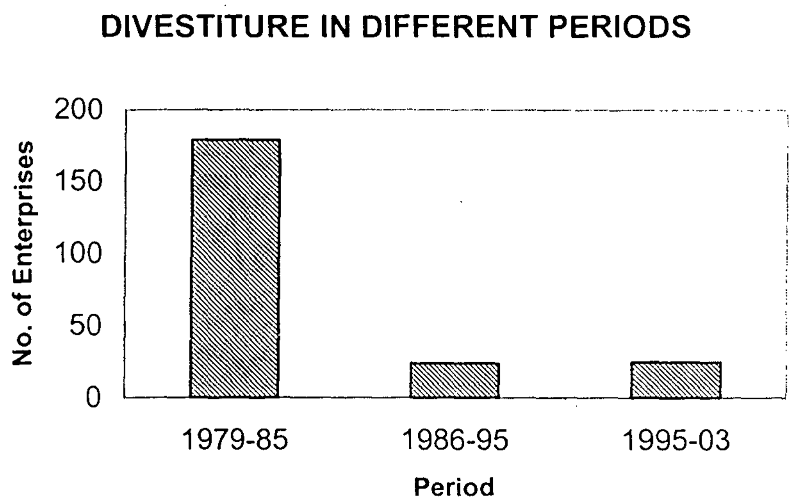

Fig. 4.1

(ii) His survey found only 55% enterprises in operation. Around 40% enterprises have closed down after divestiture and 5% enterprises are non-existing. See Fig. 4.2 below.

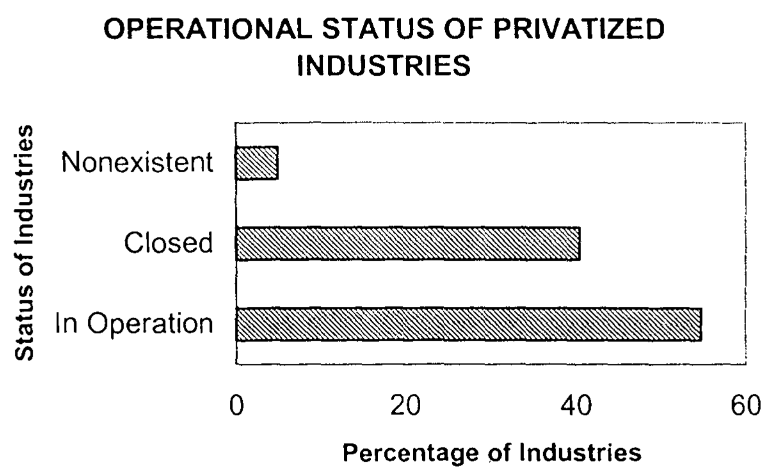

Fig. 4.2

(iii) A wide range of privatization exercise took place in the different sectors.[2] Even after the period 1995 it was seen that the trend is continuing (see the section current status of privatization in this chapter). Data presented in Table 4.2 shows very high level of incidence of closure with a very dispersed nature. Sen has focused the most interesting part of his findings showing the very high level of closure within the sectors. Closure is no more the case of a specific sector. The break-up for the closure can be easily seen in the Table 4.2. Data presents the clear picture that cotton textile, food and allied products, metal engineering, leather, and pharmaceutical are the major sectors in which within the sector the closure is almost around 40%. In the overall closure only jute textile, food and allied, motel and engineering accounts have more than 60%.

[2] Enterprises belong to diverse sectors (Table 2) Jute and textile units constitute 19% and 17% each. The next important categories are food and allied (15%) and metal and engineering (13%). A considerable proportion is engaged in chemical and paper (8%), leather (5%), and non-metal (5%). Apart from units engaged in core production activities. a number of enterprises are engaged primarily in trading and services (12.1%) Binayak Sen, op. cit. No. 1, p. 6.

Table 4.2

Incidence of Closure of Privatized Industries by Major Product Types (Based on Current Sectoral Status of Enterprises)

Type	*No. of units*	*Per cent (%) of divestiture*	*Distribution of Total Units(%)*	*Proportion of Closed Units within Sector(%)*	*Per centage in total Closure*
Jute	39	19.0	20.0	23.1	10.8
Textile	34	16.6	17.4	44.1	18.1
Food and Allied *	31	15.1	16.0	45.2	16.9
Metal and Engineering #	27	13.2	13.8	45.2	16.9
Chemicals and Paper •	16	8.0	8.3	31.3	6.0
Leather	10	4.9	-	-	-
Non-metal ©	9	4.5	5.1	40.0	4.8
Pharmaceutical	5	2.4	4.5	33.3	3.6
Miscellaneous ®	24	11.8	2.6	40.0	2.4
Non-existent	10	4.9	12.2	83.3	24.1
Total	**205**	**100.0**	**100.0**		**100.0**

Table complied by the researcher is based on the findings by Binayak Sen's study on divested industries in 1997, BIDS (mimeo).

(*) This includes oil products 13, milk products 2, other food 7, cold storage/fish processing 4, and tobacco industries 5.

(#) This includes metal fabrication 25 and motorcycle/tempo assembling industries 2.

(•) This includes soap products 3, cosmetic products 1, match products 4, other chemicals, and Paper/packaging industries 4.

© This includes wood 1, rubber/plastic 3, ceramic 1, aluminium 1, cement 1, brick/brickfield industries 2.

® This includes cinema hall 2, commercial housing/godown 19, others 3.

(iv) There has been some change in the pattern of ownership since divestiture. In many cases, units are with the original owners or their immediate family. The break-ups for the relationships with original owners are, self [63], son/daughter [3], near relative [6], distant relative [2] and non-relative or third-party buyers (who are unrelated to original owners) account for 26% of the sample. Fig. 4.3.

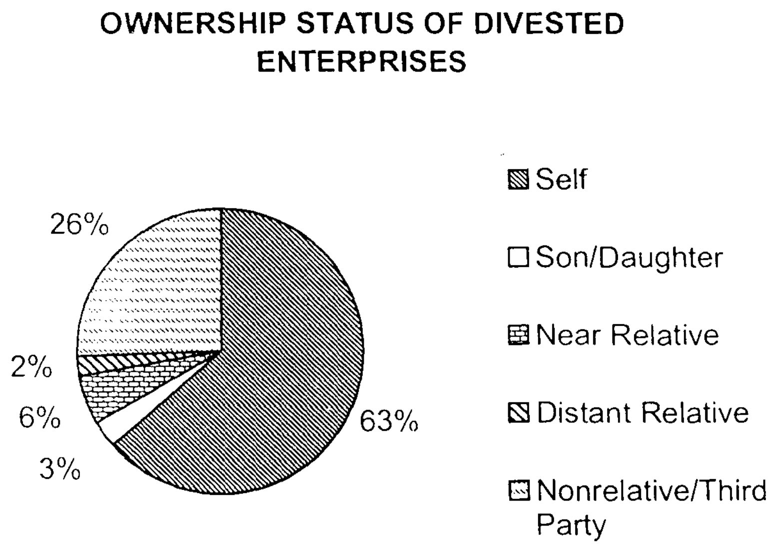

Fig. 4.3

Sen's finding shows that the ownership status has not changed drastically. Many of the divested enterprises have been returned to the same owner or his relatives. This shows that the previous owner narrows the ownership transfer, or they were so close to the divestiture process that they got the opportunity to again become the owner of the enterprises. So, it can be concluded that the new party has not interested in divestiture business.

Sen has analyzed the case of closure and also tried to look into the length of closure. He stated that in many cases, closure occurred sporadically, i.e., it may be in operation for two or three years, and then be closed for another two successive years and so on. In many cases, enterprises have been closed for four or five years at a stretch. Thus, of the 110 enterprises that were closed once or more during the entire period of post-divestiture was as high as 69% went out of operation for more than 2 years, 45% remained so for at least 4 years; 20% did not operate at all for eight years or more (Table 4.3).

Table 4.3
Distribution of Privatised Enterprises according to the Length of Closure

Length of Closure (Years)	*Numbers of Units*	%
Up to 1 year	22	11.3
1.1-2 years	12	6.2
2.1-4years	26	13.3
4.1-6 years	16	8.2
6.1-8years	12	6.2
8.1-12 years	11	5.6
12.1 + years	11	5.6
Not applicable	85	43.6
Total	**195**	**100.0**

Source: BIDS survey of disinvested industries, 1997.

Sen has extended this debate and also tried to look into some other aspect of privatization. We can also summarize some of his findings below:

(v) If one looks at the capacity utilisation rates, one can discern the presence of ailing elements within the currently running category as well. In 36% of such cases, current capacity utilisation rate has been way below 75%. (Table 4.4).

Table 4.4
Capacity Utilisation after Divestiture
(For enterprises that are currently in operation)

Per centage of Capacity	*Number*	%
100%	9	8.0
75-99%	63	56.3
50-74%	28	25.0
25-49%	7	6.3
10-24%	5	4.5
Less than 10%	-	-
Total	**112**	**100.0**

Source: BIDS survey of disinvested industries, 1997.

(vi) Table 4.5 lists factors, which emerged prominently in the perception analysis as proximate explanation influencing current closure of privatized enterprises. In 81 divested enterprises lack of capital, owner's indifference and debt burden are the foremost factors. In 57 divested enterprises debt burden, lack of capital and uncompetitive nature of production played the prominent role in closure whereas in 36 divested enterprises again debt burden, high cost of production and lack of capital played major role in closure. As it is evident from the Table 4.5 below.

Table 4.5
Factors Influencing Closure of Privatized Enterprises: Results of Perception Survey

Factors	First Factor (N=81)	Second Factor (N=57)	Third Factor (N=36)
Lack of Capital	28.4	12.3	13.9
Lack of market access	3.7	1.8	-
Debt burden	13.6	15.8	22.2
Labour trouble	6.2	3.5	5.6
Litigation	6.2	8.8	2.8
Ownership dispute	3.7	5.3	2.8
Owner not interested in running the factory	21.0	14.0	5.6
Unable to compete with cheap import	4.9	7.0	11.1
Unable to compete with other products	-	5.3	11.1
High cost of production/low quality of products	2.5	15.8	8.3
Others	9.9	10.5	16.7
Total	**100.0**	**100.0**	**100.0**

Source: BIDS survey of disinvested industries, 1997.

Sen has emphasized on the role of restructuring on way to privatization and he also tried to examine such an option. In about 30% of enterprises, which currently correspond to closure cases, the presence of alternative production/ commercial activities may be noted. In rest of the cases commercial or service activities are undertaken with little potentials for employment generation compared with the pre-divestiture period as is evident from Fig. 4.4.

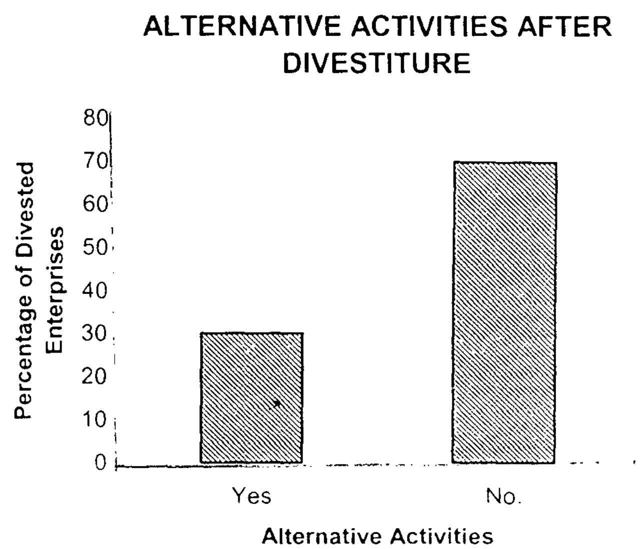

Fig. 4.4

Sen argued in his study saying that alternative activities are, of course, better than no activity, as they are at least found to be financially remunerative. However, the measure of success of privatization must ultimately be sought in its capacity to stimulate industrial growth, and not in the promotion of activities of residual nature.

Sen analyzed the changes before and after divestiture. Sectoral status of privatized enterprises shows some change between 'before' and 'after' divestiture. We can summarize some of the Sen's findings as follows:

(vii) Sen found that as many as 39% of them introduced new types of products whereas 61% continued producing the similar product. Fig. 4.5.

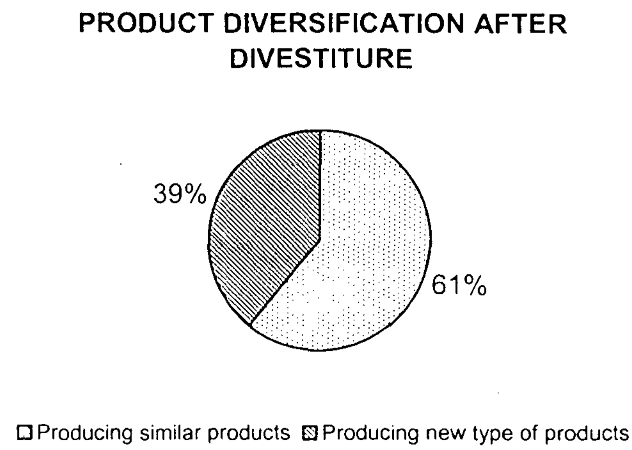

Fig. 4.5

Table 4.6 sums up the overall data on performance before and after divestiture.

Table 4.6

Comparison of Pre-and Post-divestiture Performance

Indicators	A	% of A	B	% of B	C	% of C
Highly Profitable	9	4.6	11	5.6	17	8.7
Profitable	38	19.6	66	33.8	83	42.6
Breakeven	26	13.4	13	6.7	16	8.2
Sustaining Loss	105	54.1	20	10.3	22	11.3
Sustaining High Loss	17	8.2	85	43.6	57	19.2
Total	**195**	**100.0**	**195**	**100.0**	**195**	**100.0**

Source: Table complied by researcher is based on the findings by Sen's study on divested industries, BIDS, 1997. [**A**]. Profitability before divestiture, [**B**]. Profitability after Divestiture (without considering alternative activities after closure, [**C**]. Profitability after Divestiture (Considering alternative activities after closure).

Table 4.6 show that the argument of non-viability as adverse initial condition influencing the current closure cannot be overplayed. In 47% of cases where closure is currently recorded, pre-divestiture performance of the enterprise was quite satisfactory in the sense of not incurring any loss (in 38% of such cases, enterprise was actually yielding profit). Sen's findings claimed that enterprises were viable. However, this contradicts the fact since viable firms don't close down. Sen has answered this question in his findings on the closure in Table 4.5. But again the question is very obvious that if all these causes of closure are prominent then what are the supportive factors in the running of those enterprises, which have become profitable after divestiture. Sen's study was quite contradictory. One way it answers the causes of closure and other way it is silent in giving the answers for the 47% enterprises, which became profitable after privatization. If internal and external factors were strongly working for the closure then why were the same factors not working in the performance of other divested enterprises. Within the same economy it doesn't seem to justify that some factors will work only for some specific enterprises in the same sectors.

Sen stated in his study that product diversification is a reflection of more market sensitive restructuring, which must have favourable effect on the overall enterprise performance. Thus the proportion of enterprises, which were running with some degree of profit, was about 38% during the pre-divestiture period (A in Table 4.6). The figure has increased to 46% in the post-divestiture period disregarding the financial impact of alternative activities (see, B in Table 4.6) or in the order of 60% if the financial impact of entire range of alternative activities are taken into consideration, (see, C in Table 4.6). These two estimates are like lower and upper bound values for the incidence of profitability. If one takes into account only the cases where alternative industrial activities are undertaken, one would arrive at a figure of 51%. This is still progressive compared with the corresponding indicator observed for the pre-divestiture period. In reality, since the economic conditions are constantly changing, part of the changes in enterprise performance could be triggered by changes in the economic environment (including other policy changes) rather than by policy changes such as divestiture.

Sen considers the fact that the change in the productivity is more guided by the other economic policy rather then divestiture. It means that divestiture is not the cause behind the change in industrial nature. In case of closure also he was sure that the competition from outside world played an important role. It is true that he is more sure about the internal factor for the closure saying that lack of capital for modernization is a key factor. Debt burden also persists as a constraining factor. Strikingly, the sociological argument of lack of entrepreneurship has received some degree of support in the available data. It appears to be the second most important factor for closure, right after the factor of inadequate capital. Competitive pressure on the part of producers from within and outside the country played relatively insignificant role in this respect.[3]

Sen's study was the first wide range study which has dealt with the different aspects of divestiture. This study has suggested some alternatives and also tried to conclude that divestiture has not succeeded much in the surveyed industries. Incidence of closure, profit-loss comparison, low restructuring activities, shows that divestiture failure to deliver the promised goal. The data provided by Sen has a great importance. But just after this survey World Bank has taken interest to show how privatization is not a failed story. The study by World Bank researcher CAF Dowlah puts some examples to demonstrate the success of privatization. Dowlah surveyed 13 enterprises and did some comparison. The time period for this study was 1991-96. He concluded that out of 13 enterprises, seven had performed with an average profit of 185%. Three textile mills had performed an increase of 15% in their total output, 21% drop in their average cost of production, and 71% increase in their labour productivity since privatization (see Table 4.7).

[3] Binayak Sen, op. cit. No. 1, p. 10.

Table 4.7

Performance Change in Privatized Enterprises during 1991-96

No.	Indicators	No. of Enterprises		Before	After	% change
		Total*	Repr.	Privatization	Privatization	
1	Total Profit, Mill Tk(A)	10	7	108	92	185%
2	Total Output,MT(B)	10	3	3,280	3,772	15%
3	Average Labour Productivity(C)	10	3	3.1	5.3	71%
4	Cost/Unit TK, (D)	10	3	301	239	21%
5	Capacity Utilization%(E)	10	6	58%	60%	3%
6	Total Sales Revenue (Mill TK)(F)	10	7	926	1,638	77%
7	Total Emloyment	10	9	5,528	4,540	18%
8	Investment Mill.TK(G)	10	9	-	1,572	-

Notes: *These are changes compared to the performance of the enterprises in the last year under the state control. Calculations are based on nine enterprises, as the data for Quantum Pharma could not be confirmed. The enterprises are: Dhaka Vegetable Oil, Chittagong Cement Clinker, Kohinoor Chemicals Kohinoor Spinning. Bangladesh Cycles, Style Fabrics, 5-R Limited, Kishoregonj Textile, Eagle Box and Carton, and Quantum Phrama.

(A) Two firms are excluded–Dhaka Vegetable Oil's production is being hampered for non-economic troubles and Bangladesh Cycle has resumed production in August 1997. (B) and (D) figures represented three textiles operating on a trial basis. (E) Dhaka Vegetable Oil, Bangladesh Cycle and Style Fabrics are excluded.(F) No investment figures are available for further expansion of Kohinoor Chemicals, Style Fabrics, and Bangladesh Cycle.

Source: DR. CAF Dowalh, *Privatization Experience in Bangladesh, 1991-96*, Executive Summary, World Bank, Bangladesh, p. VIII.

However, this study is also contradictory and unable to answer many questions. If the labour productivity has increased in the divested enterprises, overall productivity has increased and cost of production has been dropped significantly then there was no reason for the closure of the units. Dowlah's study was quickly criticized by the World Bank itself. A paper by Prof. M. Shamshul Haque pointed out:

> Dowalh attempted to show profit before and after privatization of SOEs in this report was rather premature. Excluding Dhaka Vegetable Oil Industries (DVOI) and Bangladesh Cycle Industries Limited (BCIL),the estimated 'Profit' for seven enterprises is shown in his report as loss of Tk.108 million before privatization and profit of TK.92 million after privatization. Profit increases are computed as 185%, ignoring the minus sign in the denominator [pa-pb)/pb is a minus figure]. The table in Dowalh's report is full of mistakes made in computing per centage changes. In any case, almost all the improvements were due to profits from Chittagong Cement Clinker Grinding Company Limited (CCCGCL) that incurred huge losses before privatization. The report does not mention the 'year before' and 'Year after' privatization. Data collected on the basis of a questionnaire was not checked with published financial statements in most cases.[4]

We will put a different study by M. M. Akash who tried to present the current picture of divested enterprises studied by Dowlah.

Akash tried to show the failure of enterprises previously studied by Dowlah. Table 4.8, shows that operating performance of only three out of 13 privatized units improved after privatization and in the remaining 10 the performance worsened (See table 4.8).

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[4] Shamsul M. Haque, Privatization In Bangladesh: Success or Failure? *The World Bank*, Dhaka, 2000, p. 7.

Table 4.8
Akash's Estimation in 1999

Name of Enterprises	*Pre-Privatization (before 1996)*	*Post-Privatization (after 1996)*
Ctg.Cement Clinker & Griding Co.	Cap Utilisation=52% Sales 49.68crtk. Total no.of workers WS=316profitable	Cap.Uti=72% Sale+86.45 cr.tk Ws=252
Kohinoor Chamicals	Highest loss incurred Tk6cr.Losing just before privtization	Now profitable Profit+79tk
Eaglebox and Carton	Losing, tk 1.85cr. loss	Losing, tk 3.13cr. loss
5R.Ltd.	Losing, tk 5.64lac, loss	losing tk 47lac, loss
Keshoregang Textile Ltd.	Losing, tk 64lac, loss	Losing, tk 2.16cr.
Style Fabrics	Losing, tk 13lac, loss	Losing, tk 30lac.
Hamida Taxtile Mills	Operational	Non-operational, the Unit could not be traced
Dhaka Veg. Oil	Operational	Closed
BD Cycle Inds	Operational	Closed
Madaripur Textile	Operational	Closed
Sinha Textile	Operational	Closed
Quantum Pharma.	Operational	Closed

Source: Akash's table as cited in Manzur Alam Tipu's Study, *Critical Evaluation of the Privatization Studies on privatization in Bangladesh* and a Proposal for a theoretical consistent Approach. *see* www.bdec.org/sec/dev/issee 4.

Table 4.8 also shows that whereas Hamida Textile could not be traced five industries closed down and three firms were losing more under private ownership. Two firms indicate higher profits but with lower employment. Akash has pointed out that after privatization only 252 workers remained employed out of 316 under public ownership. He also assumed that even if a significant number of workers produce nothing, it is good for the society to keep them employed. Manzur Alam Tipu has questioned the logic given by Akash and Rahman Sobhan[5]. He questioned as to why people like Akash and Professor Rahman Sobhan feel that as many as 64 people who could be gainfully employed in other pursuits should be paid a handsome salary in publicly owned enterprises for producing nothing![6] We will discuss extensively on the labour issue in the section divestiture and labour.

The privatization study of Bangladesh has many hopes and origins. In this chapter, sections on 'political economy of privatization' and 'issues in privatization' will extensively deal with different aspects of privatization. But to know the interface of privatization, various case studies have been done. The following case studies of five different privatized enterprises will throw some light on the experiences in privatization. One by one we can see the different experiences in these enterprises.

[5] Prof M.M. Akash and Prof Rahman Sobhan both have a great interest in providing more employment through SOEs.

[6] Manzur Alam Tipu,Critical Evaluation of The Studies on Privatization in Bangladesh and A Proposal for A Theoretically Consistent Approach, www.bdec.org/sec/dev/issues4.

4.3 EXPERIENCES IN PRIVATIZATION

4.3.1 Kohinoor Chemicals Company Limited (KCCL)

The privatization process of 'Kohinoor Chemical Company Limited' began in 1988, under the '51–49' (government was keen to keep 51% share and ready to divest 49% share of the SOEs) plan as per the industrial policy1986.[7] The process consisted of a sale of 15% of share to company workers and staff under the Employee Stock Option Programme (ESOP), 34% to the general public through the stock market and the remaining 51% was retained by the government. However, the employees did not pay for their shares until 1989, so the government retained 66% for an extra year. In the second and final phase of the process, the retained 51% shares were offered for sale through an open tender in 1992. These shares were eventually sold to the Orion group in 1993. The group, which has been a successful private sector owner of three other pharmaceutical

[7] A Pakistani entrepreneur founded the company as Kohonoor Shilpa Gosthi. The company was licensed in 1959 and was registered in 1959. From the very beginning of its journey, Kohinoor Group of Industries (KGI) consisted of two manufacturing plants, namely Kohonoor Chemical Company Limited established in 1959 and Kohinoor Battery Manufacturers Limited established in 1964. It also strated business by producing Tibet Snow in 1956 and from then it never really had to look back as Tibet Snow gave it a solid ground to stand firmly. Then it went on producing Tibet Ball soap, Tibet Kadur Tel and so on. After 1971, these companies were placed under Bangladesh Fertilizer Chemical and Pharmaceutical Corporation in 1972 and subsequently under Bangladesh Chemical Industries Corporation (BCIC) in 1976. Up to 80s, KCCL was doing well under government ownership. It established itself among the few profitable organization of Bangladesh. The nose-dive came in the mid-80s. Surprisingly the financial condition of Kohinoor was thought to be satisfactory till an audit report discovered that it was making losses from the mid 80s. In 1986 alone Kohinoor incurred a staggering loss of 5 crore taka. It came as a total shock for everyone concerned. The continuing dismal performance of this once-profitable enterprise prompted the government to seriously pursue its privatization.

concerns, was the highest bidder for the enterprise. During the prolonged period of privatization, the enterprise continued to run into losses. In 1993, the enterprise was running at only 13% of its annual production capacity and its sales revenue fell by 32% since 1990. The private management took the challenge and succeeded in reducing the losses. Within three years, the enterprise experienced a turnaround and made the maiden profit in 1996–97. Since then the company continues to yield profit. Assistant Vice President (Administration), Kohinoor Chemical Co. Ltd., M.A. Khair said that:

> Previously we were office oriented now we are field oriented. We had established around 150 new distributors in the country. Before privatization distributors had to meet us but now we are going to meet our distributor.[8]

A strong commitment of the owner of Kohinoor Chemicals, Ebadul Karim, shows that some of the entrepreneurs have confidence in fighting SOEs related problems. This can be a strong case for the success of privatization. It was stated by M.A. Khair that 'after divestiture, retrenchment did not occur. However, a study by Berg and Berg claimed that there was substantial retrenchment in the company. In the section 'divestiture and labour' we will extensively discuss the labour-related argument of Berg and Berg.

4.3.2 Chittagong Cement Clinker Grinding Company Limited (CCCGCL)

The construction of the Chittagong Cement Clinker Grinding Company Limited (CCCGCL) was embarked for privatization under

[8] Assistant Vice-President (administration), Kohinoor Chemical Co. Ltd. M.A. Khair in an interview on 23 March, 2003 Dhaka .

the '51–49' plan initiated under Industrial Policy of 1986.[9] The privatization process for the enterprises actually began in 1989,when 34% of its shares were off-loaded in the stock market and 15% was sold under ESOP. In May 1992, the remaining 51% of the shares were put up for sale through tenders. The first stage of privatization was completed in one year and the second took about 13 months. Of the three bidders for the enterprise, Mr. Abu Tayab, Managing Director of T.K. Oil Refinery Limited, was the highest. Mr. Tayab was issued the Letter of Intent in January 1993 and the enterprises was finally handed over in June the same year. The T.K group is a relatively large business conglomerate that owns companies and deals with such products as oil, timber, plastic and vegetable products. The new owner became interested in CCCGCL because it was a profitable concern at a prime location. Moreover, it was the biggest grinding cement mill in the country having huge potential to meet the growing demand for cement for construction and the infrastructure needs of the country.

Though the privatization process was fairly smooth for the new owners, some problems were encountered. Six months elapsed between the issuance of the Letter of Intent and the handing over of the enterprises, even though government rules stipulate that this

[9] It was started under the East Pakistan Industrial Development Corporation in 1967. After the 1971's war, the enterprise under constitution was nationalized and placed under the control of Bangladesh Metallurgical & Engineering Development Corporation. After completion of the construction work, it went into commercial production in 1974. In 1982, the enterprises was transferred to the Bangladesh Chemical Industries Corporation (BCIC). This was a losing concern at that time .But this trend was soon reserved–with exception for a couple of years before 1995.

period should be no more than 60 days. This delay meant that the new owners were not able to earn profit on the TK.33 million that they had deposited for the enterprise. Another problem they faced concerned the outstanding bill that the company owed to the Chittagong Port Authority which was accumulated while under state control (total debt increased by 49% during the period 1991–98). The company also owed money to BCIC as a result of various business transactions and the sale of a piece of land the belonged to it, even after that the company made some impressive results. Recent indication of profile in the post-1995 period shows that production increased by 40% after privatization, sales revenue jumped by 75%, net income increased by 176%, and the company's average net worth increased by 169%. However, economist like Akash pointed that the profit and the efficiency of CCCGCL are because of the heavy construction work in the last decade, which is basically the period after privatization. The CCCGCL is one of the best performing privatized enterprises in the country. In an interview Prof. Sobhan also said, 'I don't find any great success of privatization except CCCGCL in last decade.'[10]

4.3.3 Pertax Group

'Pertax group' was divested in 1983.[11] Now it is a totally privatized enterprise. Over the years it developed as an example not only for

[10] Interview with Prof. Sobhan, 16 March 2003, Dhaka.

[11] The history of Pertex Group is no different. It had its modest beginning in the tobacco trade in 1959. Under the prudent stewardship of its founder chairman MR. M.A. Hashem it has grown steadily over the years to become one of the leading industrial conglomerate in the country. In the early seventies, MS. Hashem Corporation Ltd. was established with the headquarters in the port-city of

Bangladesh but for the other countries as well. At the time of divestiture in 1983 it was said that the company was not performing well and hence there was a certain necessity to divest its share. Some of the shares were also divested to the employees inside the group. And some parts of the shares were also divested to the other parties. In a discussion, an official from the Pretax group, said:

> Over the years revenue base has expanded to create 17 companies. All this has been possible due to the support of our clients. We, on our part, have tried to satisfy their increasingly diverse and stringent demands for products, services and higher levels of satisfaction. We believe it is the ultimate satisfaction of customers that is the wheel of growth.[12]

It was said by the official that in the privatization process companies changed the managerial structure that increases the level of production. Apart from this change in the managerial level, the company also diversified its products. Previously the company was specially engaged in the production of plywoods. Just after privatization, the company has started production of 'multiple

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chittagong. The missionary zeal and unflinching commitment to quality and services took the group to higher elevation. At a time when the newly independent country needed almost everything, the company involved itself in the import of essential items like iron, steel, cement, sugar, rice, spices, wheat, salt, milk, and other commodities. It did not stop there but to make the country self-reliant, went on to substitute imported products by manufacturing them locally. Guided by this visionary dream and backed by an inexhaustible repository of effort, the group emerged as one of the largest corporate body of the country.

12 Same views expressed in the message from the chairman M. A. Hashem, in Pertax Corporate profile, 2001, p. 2.

items'.[13] The company has started working in 'different sectors'.[14] Because of the diversification of the product and managerial change, the Pretax Group's turn over has reached the level of US $160 million in 2002–2001, with an estimated growth rate around 15% per annum, net worth at current market price nearly US $150 million, over 350 distributors around the nation, over 45,000 outlets where products are available and over 7,000 employees are working. The group is constantly seeking new export opportunities. With the intention of further diversification of business, management is keen to promote internationally reputed brands locally and establish a base from which profitable joint ventures in different sectors can be launched.

4.3.4 Dhaka Vegetable Oil Industries (DVOI)

The 'Dhaka Vegetable Oil Indusries' (DVOI) was chosen for privatization under the '51–49' plan initiated under Industrial Policy, 1986.[15] This two-phase plan entailed the conversion of SOEs into

[13] These items are plain particle board, vinyl board, cabinate board (timber framed), plytex ply wood, interior flush door, exterior bathroom use lacquered door, aperture door, honey combed door, designed door, kitchen cabinet door, cabinate board and door frame (chaulkath).

[14] Danish condensed Milk Bangladesh Ltd is currently, Danish food products (fruit juice processing and Packaging plant), Danish Milk Bangladesh Limited, Amber cotton Mills Ltd, Amber Pulp and Paper Mills Ltd. Pattex Beverage Ltd. Danish Distribution Network, Rubel steel mills Ltd., Partex real estate Ltd, Pertex Furniture, dhakacom, futoroma, Hashem corporation (Pvt.) Ltd, Corvee Marotime Company Ltd.

[15] Dhaka Vegetable Oil was established in Narayangang as a private limited company in 1968 by the Adamji group, to refine soyabin oil and vagetable ghee. After the libration war, the government nationalized the enterprises and placed it under the Bangladesh sugar and Food Industries (BSFIC) in 1972. Though little is known of the performance under the Adamjee group, once the enterprises were nationalized it soon became unsound, and unprofitable.

public limited companies. In the first phase, 49% of the shares of the enterprises were to be sold to the public and to the company employees. The government was expected to retain 51% of the shares, and hence control of the management, until the rest of the enterprise was privatized. At the time of privatization, the enterprise was employing a work force that was 500% larger than the workforce required. Till 1990–91 the enterprises made notional profit because they enjoyed government protection. The actual problem started in 1990-91 when the company was privatized and protection was removed. In April 1992 the second stage of privatization was undertaken when the government floated a tender and attracted four bidders. The A. B. group headed by Mr. Mohammad Ali, was the highest bidder and was issued the Letter of Intent in December 1992. A 'CPD study on Dhaka Vegetable Oil Industries'[16] tells us a different story, which reflects the corrupt practice in DVOI.

In FY 1990–91, a new position of Managing Director was created by the Board of Directors who was assigned all the powers to operate the company. A high official of Bangladesh Sugar and Food Industries Corporation (BSFIC), Mr. S.U. khan, was appointed to this new post. In that year, Mohammed Ali, a businessman, was invited to join the Board of Directors. From the outset, complaints began to be registered against Mr. S.U. Khan, the Managing Director for malfeasance and for violating the rules of the company. One of the major complaints against Khan was that he was inclined to compromise the interest of DVOI for personal gain. The evidence is supported by the fact that Tk. 21.5 million was taken as security-

[16] Lanin Azad, Dhaka Vegetable Oil Industries: A Case Study of Malfeasant Privatization, CPD Case Study on Privatization, 1998, Dhaka, pp. 9–18.

deposit from a small company, Mostafa Industries Ltd. Further, Tk. 6,62,500 was taken from A B Vegetable Oil Industries Ltd., one of the largest private oil companies in the country. Vegetable oil industries defaulted on an amount Tk. 3 million due from it as security-money. However, inspite of their default, AB Vegetable Oil was once more extended credit for Tk. 6,60,000 from DVOI. These concessions to A B Vegetable Oil are particularly noteworthy because the new board member of DVOI, Mohamad Ali, was appointed Managing Director of the DVOI on 4^{th} April, 1993 after having received an advance of Tk. 2.2 million from DVOI for his own company, AB Vegetable Oil Industries, a sum which is yet to be repaid to DVOI. The company had already become sick due to the uncontrolled financial mismanagement of its Managing Director Mr. S.U. Khan. As a result, the company ate into a major portion of its accumulated assets.

The industry was completely privatized on 22 April, 1993. With the help of some ministers and corrupt bureaucrats Md. Ali managed to hold 51% government share of DVOI at a price which was much lower than the market price. Md. Ali secured the full ownership of DVOI. This experience of DVOI indicates that high levels of corruption are not restricted to state owned enterprises, but can also occur in the private sector. Defaulting loans of Tk.130 million to the IFIC Bank by Md.Ali remain, an example of malfeasance in the private banking system in collusion with their borrowers.

Since the closure of DVOI, many of its assets and machines have already been sold off by Md. Ali, who is currently trying to quietly sell-off many other valuable machineries and spare parts. Needless to say, little of these sales revenues are developed to pay-off DVOI's liabilities to IFCI bank.

This is one of the bitter experiences in privatization in Bangladesh. It's a practice for private purpose where the public service motive, production motive and the industrial commitment is finally incomplete.

4.3.5 Eagle Box Carton Manufacturing Company Limited (EBC)

Eagle Box Carton Manufacturing Company Limited (EBC) came under active consideration of the GOB for 'privatization' just after government's announcement of its commitment to denationalize most SOEs.[17] Its privatization had thus been kept under consideration since 1987 inspite of strong opposition from the company's labour force. Since 1987 however, '49% of its entire shares ownership was transferred to private hands'[18], with a balance of 51% being retained with the ownership and management of Bangladesh Chemical Industries Corporation (BCIC). Partial ownership achieved in this manner invigorated the labour force to work more intensively. This required a rise in production and EBC's gross profits registered an upward trend. After the initial boost in performance of EBC, a decline

[17] EBC has been in operation prior to the liberation of Bangladesh. Its Pakistani owners abandoned the industry at the time of liberation and it came under the Bangladesh paper and Board Corporation (BPBC).BPBC was subsequently absorbed into the Bangladesh Chemical Industries Corporation (BCIC) in 1976.EBC has a select band of skilled workers and machine-men working in the company for 25-30 years who have accumulated expertise an know great deal about the box/package industry machines. (The experience of EBC is based on the Lalin Azad's study on EBC privatization, CPD, 1998, Dhaka).

[18] Out of the 49% of shares offered for sale of EBC 34% were sold out through the Share Market while the Company's labour groups purchased the remaining 15% from their earning in the company.

in production and 'concomitant losses were registered in successive years'.[19]

An international tender was floated on June 20, 1992, in *Bangladesh Observer,* offering 51% share of EBC for sale to private ownership. One per cent of the total quoted purchase value was fixed as earnest money and a sum to that amount was to be forwarded along with the tender. The move to privatize EBC faced a serious setback as a result of the formal opposition of its shareholders. Under the rules and regulations governing privatization of holding companies and GOB-controlled enterprises, considerable importance was accorded to the views of the shareholders. Thus, there was hardly any scope for the GOB to proceed with the privatization of EBC by flouting the opinion of the shareholders. To override the shareholders' views required changes in the relevant laws. Nothing was done in this respect through the medium of Parliament, although the Jatiyo Sansad, and the President of Bangladesh was advised by the GOB to proclaim an ordinance on January 13, 1994, styled the Bangladesh Industries (Nationalization Amendment) Ordinance, which scaled down the importance of the opinion/advice of the minority shareholders of the Company as a precondition for guiding the GOB's privatization dicisions. Such a step to overriding the rights of EBC's shareholders through a Presidential Ordinance bypassing the Jatio Sansad was viewed as undemocratic since it sought to bypass the GOB's own legislation on holding companies. This created

[19] The total accumulated losses in these three years, up to 1995-96 amounted to Tk.72 million. This shows that even after divestiture the Company was in the loss.

a difficult situation for the government to manage the interest of the labour. Trade union had requested to solve such type of problems. The EBC Workers union filed a suit on March, 1994 against BCIC and the Secretary industries to ensure the best interest of all shareholders of EBC, Government, BCIC and buyers, a five-member Trustees Board was given the authority to oversee the company. The new management was given the legal authority to use the assets of the factory with full freedom. It was clearly mentioned in the deed that they have to preserve and take care of all moveable and immovable assets of the factory until the full repayment of the government's loan is completed. The amount of government's loan to EBC owed to the Ministry of Industry and BCIC was significant, adding up to Tk. 53.5 million. Apart from this obligation, the amount taken by EBC as a loan from BCIC was Tk. 67.8 million. In total, EBC owed Tk. 121 million. It was agreed that the compound interest would be calculated every six months.

Till today neither BCIC nor any other organization of the government has taken the trouble of finding out what has happened to EBC and its employees. The buyer didn't meet most of the payment obligations under the agreement, which needed to be fulfilled as a precondition for making the transition effective. However, such was the enthusiasm of the government to get rid of EBC that it turned a blind eye to this violation and handed over EBC to private players. At the outset of the privatization process the services of three important trade union leaders were terminated. One of those three was a representative of the Workers and Employees Board which who held a 15% share.

4.4.6 Summing up the Experiences

It is clear from the above discussion that the success of divestiture is limited. However, a few industries like Cittagong Cement Clinker Grinding Company Limited, Kohinoor Chemicals and Pertax Group have really benefited from privatization. Pertax Group took up product diversification, and achieved profitability. KCL also tried similar exercise, but a large number of labours were retrenched. Although CCCGCL has shown profitability critics have challenged that profitability, DVOI and EBC have just closed down. To know the limited success of privatization, it is essential to look into the various political economic factors. In this regard the researcher interviewed some stakeholders in privatization. The next section will present a overall picture of the political economy of privatization.

4.5 POLITICAL ECONOMY OF PRIVATIZATION

Bangladesh launched the nationalization programme immediately on its inception under compelling circumstances; and at a loss to run the abandoned industries left by the non-Bengali owners and by the government. The huge number of top vacant positions in the government and nationalized sector were filled with persons of the ruling party's choice, who were mostly not capable of shouldering administrative and management responsibility. Thus inefficiency and corruption creeped into all spheres, especially in the ministry-controlled Boards, corporations and enterprises making those losing recurrently, the burden of which was borne by the people under the fiscal policy of successive governments. Various inquiry bodies set up to improve the situation from time-to-time did not produce any concrete result deemed to be beneficial to the poverty stricken economy. For example the Public Administration Reform Commission could not make any headway.[20] It was also clear from the various case studies and studies by many researchers that the corruption-oriented inefficiency of SOEs was the main cause behind privatization. But Bangladesh is a country, which has also shown that inefficiency cannot be solved much through privatization. The economic philosophy to speed up industrialization through privatization, has not worked in the case of Bangladeshs as Industry Minister, M. K. Anwar himself admitted (in March 2003), that 50% of privatized industries closed down. No wonder privatization has been claimed as the engine of deindustrialization in Bangladesh. Economist like Binayak Sen in study of privatization stated that the Natural Death Rate of Industries (NDRI) is highest in Bangladesh.[21] But the birth rate of new industries are very low. Rahman Sobhan said in an interview that exit and entry are the natural processes of industrial development but except few small garment manufacturing industries, not many big industries are coming up, where a large number of employment can be generated.[22] Due to the indifference in the industrial sector, the industrial growth has also slowed down. In an interview, Akash also pointed out that one should see the impact of privatization on industrial growth rate. The industrial growth rate

[20] See the detailed discussion on this topic by Muhammad Quamrul Islam, in Bangladesh Observer, July, 5, 2003, Dhaka.

[21] Interview with Dr. Binayak Sen, Dhaka, 20 March, 2003.

[22] Interview with Prof. Rahman Sobhan, Dhaka, 16 March, 2003.

in the period 1982–90 was the slowest one. It was the major period of privatization in Bangladesh.[23]

The basic question for Bangladesh that remains is to find out the area where some competitive advantage is still possible. Ultimately, the question of industry is not only the matter of the size of the enterprise but the importance of enterprises lies in participation in the global trade. As a part of WTO, Bangladesh has to find out this new trade horizon. In this connection the industry should act like Pertax Group, which is very much confident in taking advantage from the SAPTA (South Asian Preferential Trade Agreement) and also from WTO. The need to serve the local and global consumer is very important. It can be possible if comparative advantage of industries are impressive in local as well as global market. But the comparative disadvantage of industries is very high in Bangladesh since it belongs to a group of least developed world. One has to see the general theory of industry and trade in which without comparative advantage it is always difficult to sustain, especially if the market is very much competitive.

It is very much interesting in the case of Bangladesh that at a time when they started major divestiture programme in 1982–85, they also had to face challenges like trade liberalization. Some enterprises have to face the challenge from the import items from the other countries, which is not only cheaper but sound in terms of quality also. Poor technology of SOEs also created an atmosphere where after privatization very few SOEs have finally survived.

[23] Interview with Prof. M.M. Akash, 13 March, 2003, Dhaka, Bangladesh.

The government failed to capture the benefits of privatization at many levels. It did not fulfill the pre-conditions of privatization. Corruption, short-term targets of the entrepreneur, and slow pace to cope up with technology became the regular practice of divested enterprises. The poor commitment of political parties is the main drawback of divestiture. Rahman Sobhan blames it on the crisis of the nature of the state.[24] The recent case of the closure of the Adamji Mill points out the crisis of the nature of the state. The government was not able to run the mill because labour became very much politicized and they were not guided by the interest of the labour but by their personal interest. Because of this reason the government has successfully decided to close it down. The Privatization Commission Chairman said that they are happy to close it down, because over the years labour became too much politicized.[25] But one question, which is equally important since the last three decades, is: who will fill-up the entrepreneurial gap in Bangladesh? Muzib's dream of socialism has not worked out properly in the case of Bangladesh. Nationalization was not well planned. The question about the viability of Bangladesh asked by Austin Robbinson in1973 is still relevant. The entrepreneurial gap has been widened over the years.

The time of closed economy has passed and the new global investors are keen to invest. But the selection of Bangladesh as a place of investment became a big question for every investor. The investment climate always demands a proper commitment of the

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[24] Interview with Prof. Rahman Sobhan, 16 March, 2003, Dhaka.

[25] Interview with Chairman, Privatization Commission, Enam Ahmed Choudhery, 5 March, 2003, Dhaka.

government, especially in terms of law and order, infrastructure facilities like electricity, road, transport, telecommunication and many others. Bangladesh is lacking at every stage. To meet this challenge, GOB has to think in many directions. The success of privatization not only lies in selling some SOEs to private hands, but in creating some new hope in which enterprises can survive. It is unfortunate for Bangladesh that the best businessman of the year 2002 and also the Chairman of the Apex Group of a private bank 'Monzoor Ilyashi' never participated in any privatization programme. Same is true about other good industrialists. Industrialists are happy to start a new industry, but they are seldom interested in the privatization process. Binayak Sen raised his question as to why good industrialists have been reluctant in coming out for privatization in last 25 years?[26] Answering this question the ex-chairman of Sonali Bank said that buying the shares of SOEs pertains to buying the problems of SOEs. Honest bidders never came for bidding. Past experience shows that, bidders had not taken interest in Bangladesh since 30–39% (based on the annual paper by the Sonali Bank 2001–02) of Bank loan to SOEs have not recovered. This non-recovery of loan became a great challenge on the way of privatization. This also became one of the major issue in the nationalized banking sector reform. Reforming the banking sector and its privatization has also become the part of the overall policy of the government. These practices will slow down the process of the privatization of the banking sector.[27] The critical situation of enterprises became more

[26] Interview with Binayak Sen, 20 March, 2003, Dhaka.

[27] Interview, Dr. Animul Islam Choudhery, Ex-chairman, Sonali Bank and Ex-Vice Chancellor, Jahagir Nagar University, March 4, 2003, Dhaka.

acute over the years. Not only in the case of DVOI and EBC, but in many other cases too, it was found that financing for privatized enterprises have failed to deliver the promised benefits. Economist like Akram also stated that firms borrow from State-Owned Commercial Banks (SOCBs) and Development Financial Institutions (DFIs) for investment in new plants and equipment and for working capital, but fail to repay the state banks (see some data provided by the Bangladesh Bank). The political cost of financing privatized enterprises need not necessarily be less than the economic cost of financing public enterprises. The case of Bangladesh shows that privatization may not decrease state directed credit and the volume of financing public activity.[28] He again states the point that the post-privatization experience of Bangladesh lends credence to the view that debt-default and tax arrears or evasion are roots by which firms budget constraints are often softened after privatization. Due to the 'gift-exchange' relationship between the authorities and the manager of a privatized firm, the volume of financing may not decrease in spite of privatization.[29] A CPD study by M.M. Akash uses this fact to discredit privatization in Bangladesh. But 'Manzur Alam Tipu'[30] argued that the crisis in the financial sector has been created by the public sector itself in two ways:

(i) The biggest share of the defaulted loans went from the publicly owned banks. One may note that while domestic

[28] Tanweer Akram , 'Ineffective Privatization of Public Enterprises: The Case of Bangladesh,' *www.Columbia.edu/~tab 63.*

[29] Ibid.

[30] Tipu, op. cit. No.6.

private banks such as Islami Bank, foreign banks such as Standard Chartered Bank have almost 100% recovery rate, the recovery rates of the public sector banks such as Sonali or Janta are no more than 20%. Therefore it is the lack of nationalization to be blamed not privatization itself. The management of the public sector banks claim that they are subjected to undue political pressure, otherwise they would have made profits. If that is true, these banks should be privatized only for saving them from undue political pressure.

(ii) Private banks are given wrong incentives from the country's Central Bank. For some strange reasons Bangladesh Bank is committed to protect all the banks, regardless of ownership, from bankruptcy, even if bank's management is full of thieves and they steal depositor's money. Bangladesh Bank will still keep on supplying them with enough cash to keep their banks running.

One can't disagree with the fact that the role of the state in the last two-three decades has been really bad. Akram also states that the experience of privatization demonstrates that it is not sufficient to obtain the gains from privatization. The major beneficiaries of state intervention in the economy is the segment of the upper class and the upper middle class allied with the party or social group in power at any given time. Each regime appoints person and families closely tied with the ruling coterie to high position in public enterprises as a reward for political and personal loyalty. Such appointments provide opportunities to amass wealth at the expense of the public.[31]

In the age of WTO, the survival of a country depends on the export basket, where Bangladesh has a very limited choice. Akram criticized the current picture of Bangladesh saying that understanding the evolution of Bangladesh's industrial structure is critical in creating a suitable business environment and favourable state policies for rapid industrialization, employment creation, rise of real wages and productivity.[32] In a nutshell, we can say that the political economy of Bangladesh never favoured privatization to road map the future of the industrial growth, which was really essential to generate a larger employment opportunities in Bangladesh. An independent consultant, Mahishur Rahman stated that privatization is not less than a crime with the industrialization process of Bangladesh. And the trade union in Bangladesh has taken great interest in this crime.[33] Only *harttal* can't give the proper justification of opposing privatization. Various trade unions are busy in their individual agendas. They are not concerned for the poor labourer. The culture of less work, more leisure can't work much, when we are in the age of global competition and trade. During the period between 10 Oct. 2001 to 10 Oct. 2002 the total number of *harttal* days was more than

[31] Tanweer Akram, Privatization of Public Enterprises in Bangladesh: Problems and Prospects, *www.Columbia .edu/~tab 63.*

[32] Tanweer Akram, A Prolegomenon to the Economics of Net Entry and Net Exit Patterns of Bangladesh's Manufacturing Industries, *www.Columbia.edu/~tab63.*

[33] Mashur Rahman, in an interview on March 1, 2003, Dhaka.

38 days.[34] *Harttal* became the permanent feature of Bangladesh. This happens three–four times in a month. This shows a negative work culture, and this practice is unfavorable for a transition economy like Bangladesh. In the process of privatization every country has to solve certain issues. It varies from country-to-country. In Bangladesh certain issues are important to be taken care of. These issues are presented below.

4.5 ISSUES IN PRIVATIZATION

4.5.1 Divestiture and Labour

Divestiture supports the need of the owner, mostly. Labour is always the last concern for them. But most of the governments in developed and developing countries are taking some remarkable decisions, which supports the interests of labour. Economist Mumtaz Uddin states that large scale job losses resulting from lay-offs and retrenchment and closure of the privatized units after divestiture, and uncertainty about payment of adequate compensations etc. are the major concerns of the workers. All these remain truly real concerns in Bangladesh and tend to be aggravated by a relationship of mistrust persisting among labour, government and the private

[34] These dates are Oct 10, Nov15, Dec 2 in 2001 and, Jan 2, Jan 9, Jan 13, Feb 2 Feb 4, Feb 8, March 4, April 6, April 11, April 28, April 29, May 4, May 5, May 13, May 18, May 19, June 16, July 1, July 4, July 22, July 30, August 15, August 18, Aug 21, Aug 22, Aug 22, Aug 24, Aug 25, Aug 31, Sep 1, Sep 2, Sep 10, Oct 6 in 2002.

sector employers.[35] However, the impact of closure of the privatized enterprises was found to have serious consequences as the aggregate loss of jobs due to closure alone was estimated to be 39,007 by Sen's study. The recently conducted study by A.M. Uddin also estimates a 25 per cent decrease in employment after divestiture in 11 of the currently operating SOEs out of a total of 13 privatized during 1991–96.[36] Privatization analysts like Berg and Berg calculated how privatization gives some space for profit especially when labour force is reduced. He stated:

> The state owned Kohinoor Chemical Company, a major producer of soops and cosmetics, sold 49% of its shares in a public offering in 1988. Going public did not affect corporate performance, however. Because of poor management and marketing, annual sales fell by two–thirds between 1989 and 1992. The labour force grew from 350 to1200, and overtime payments also grew. A widely cited example of management laxity was the employment of 27 drivers for the company's five cars. In July 1993, the workforce was cut to 650 people. Overtime disappeared. Production processes were overhauled and new marketing effort undertaken. Part of the terms of sale was that the company would retain the 650-person workforce for a year. Since only 350 employees were needed, the management introduced a scheme of team competition. The workers were divided into two teams,

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35 Momtaz Uddin Ahmed, 'Privatization in Bangladesh', (ed.), Gopal Joshi *Privatization in south Asia*, ILO, 2000, New Delhi, p. 27.

36 Ibid, p.32.

each working alternative weeks. Output per workers has shot up five-fold, according to some observers. Production has increased by 30%. The company has offered continued employment to all its workers based on future profitability and expansion. [37]

The contradiction starts in case of Kohinoor Chemicals when the president of the KCL said that there were not a great number of retrenchments. However findings of Berg and Berg do show a large number of retrenchments. In a discussion with a researcher in March 2003, the vice president of KCL was not keen to show any document related to the retrenchment.

Table 4.9, also shows that except Bangladesh Cycle Industries Ltd. all other recently privatized SOEs had retrenched labour.

Table 4.9 shows that except Bangladesh Cycle Industries Ltd. all other recently privatized SOEs had retrenched laboures. According to this Table average per centage of retrenchment in these SOEs is 30. These tables can't show any positive indication of disinvestment. Study by Binayak Sen and by Dr. CAF Dowlah both have predicted a negative picture.

[37] Andrew Berg and Berg, Elliot, 'Methods of Privatization', *Journal of International Affairs*, London, Winter 1997, p. 364.

Table 4.9
Change in Employment Status of the Currently Operating Enterprises after Privatization During 1991-96

Sl. No.	*Name of the Enterprises*	*Employment*		
		At the time of privatization	*After privatization*	*Change in per cent*
1.	Dhaka vegetable oil industries Ltd	525	295	-43.8
2.	Chittagong Cement Clinker and Grinding Co.Ltd.	318	252	-20.8
3.	Kohinoor Chemicals Co.	889	789	-10.2
4.	Kohinoor Spinning Mills ltd	1030	530	-48.5
5.	Bangladesh Cycle industries Ltd	119	800	672.2
6.	Barisal Textile Mills (New: Name 5R Ltd.)	1172	832	-29
7.	Style Fabrics & Embroidery Ltd. (Old Name: Zotime Fabrics)	61	50	-18
8.	Madaripur textile Ltd.	1056	742	-29.7
9.	Kishoregange Textile	1275	758	-40.5
10.	Eagle Box & Carton Mfg. Ltd	268	172	-35.8
11.	Quontum Pharmaceutical Ltd.	283	n.a.	n.a.
12.	Hamida Metal Industries Ltd.	Disappeared		
13.	Sharmin Textile Mills	6996	5229	-25.3

Source: World Bank: Privatization Experience in Bangladesh, 1991-96; a study undertaken for the World Bank (Vol.1); Sep.1997.

Average percentage of retrenchment in these SOEs was 30 per cent. Table 4.10 and 4.11 (which was based on the BIDS findings) also present a high number of retrenchments as it is evident from the table below.

Table 4.10

Labour Restructuring after Disinvestment: Cohort Analysis for currently Running Enterprises

	Before Disinvestment	After Disinvestment	% difference
No. of production workers	97048(89.3)	73711(89.50)	-24
No. of non-production workers	11597(10.7)	8643(10.5)	-25.5
Total number of workers and employees	108645(100)	82354(100)	-24.2

Note: The estimates are based on 112 privatized enterprises, which are currently running. Source: BIDS survey of disinvested industries, 1997. (Figures in parentheses represent column per centages)

Table 4.11

Impact of Closure on Employment: Cohort Analysis for Currently Closed Enterprises

	Before disinvestment	*After disinvestment*	*Difference*
No. of production Workers	35435	1066	34369
No. of non- production Employees	4884	246	4638
Total number of workers and employees	40319	1312	39007

Source: BIDS survey of disinvested industries, Table shows a wide gap of workers retrenchment after disinvestment. This can be a most negative aspect of workers / employees concern.

These data don't show any positive indication of divestiture in relation to labour. BIDS study of divested industries (Table 4.10, 4.11) and World Bank's (Table 4.9) study of recently privatized 13 SOEs have predicted a picture of high level of worker's retrenchment.

Some government schemes and commitments to the ILO can give a new hope to the workers and employees. New schemes like 'golden handshake' financial compensation scheme introduced initially in Railways, BJMC and BTMC were the "Voluntary Departure Schemes (VDS)," under which the terms of payment appeared to be generous and response from workers was also favourable. A SOE employee with 30-year service would be entitled to five years pay as gratuity alone and thus the workers, response to VDS has been quite positive during 1991–93, especially in the Railway, Bangladesh Jute Mill Corporation (BJMC) and Bangladesh Textile Mill Corporation (BTMC).[38] But the overall participation of labour in VDS is very less since only a very small lot has served the enterprise for more than 30 years. Many Bangladeshi SOEs were not even established 30 years ago.

Labour unrest is a major issue in disinvestment process in Bangladesh. Ahmad states that nearly 20,000 workers had lost their jobs by 1993, by the time the training programme started in 1996. By then many of the workers left the mills, dispersed to their villages and perhaps also lost hope and self-confidence and were not keen to seek retraining for redeployment.[39] The issue of privatization has

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[38] Momtaz Uddin, op. cit. No. 35, p. 32.

[39] Ibid, p. 34

created a sense of insecurity amongst the workers of the nationalized industries and commercial concerns owned by the government. Though in order to facilitate the privatization process the concept of 'golden handshake' has been introduced where the workers have been offered substantial financial benefit in exchange for leaving the job yet this approach has not met with much success. The workers do not feel secure in leaving the present job and to seek out new job. Workers are apprehensive of the fact that in the event of privatization of the enterprises they would lose their jobs under the private management and would be secure by making necessary provisions in the instrument of transfer for continuity of their service. Unless the workers are taken into confidence and they cooperate, the process of privatization can not take place. Hence it is necessary to motivate the workers and give them a sense of economic security. It is indeed very difficult on the part of any elected government to take any decision, which would have adverse effect upon its popularity. The decision of privatization is not a very popular one since it would affect the interest of large number of workers in particular enterprises.[40] During the discussion with Ferdaus Ara Begum, in DCCI, It was stated that after retrenchment the condition of labour is really shocking. She stated:

> Most of the private entrepreneurs are not even interested to see the bio-data of the retrenched worker. The rate of getting employment for that poor labour is really very low.This aspect is one of the most serious aspect of privatization.[41]

[40] Tufailur Rahman, A paper presented in Metropolitan Chamber of commerce and Industry, in December, 1999, Dhaka.

[41] Interview with Ferdaus Ara Begum, Dhaka Chamber of Commerce and Industry (DCCI), 15, March, 2003, Dhaka.

New hopes like VDS, Special Workers Fund (SWF), and other legal mechanisms also have not succeeded so far. *'Harttal* and *Talabandi'* became a permanent character of Bangladesh.[42] In this situation, global investors are losing their confidence. The successes of disinvestment policy also depend on how the government is meeting the need of the SOEs workers. The government should try to solve the conflict between workers and management on the way of privatization. Privatization Board has become an important institution in this regard.

The greater interest of the labour depends on the new industries going to be established and the survival of the loss-making industries. One major negative aspect of SOEs in Bangladesh is that some of them are closed and some of them are on the verge of closing. Privatization experts Ramanadham stated that the inequity of unemployment apparently caused by privatization is, in most cases, a fundamental national legacy. The aim should be to allow enterprises to operate with an efficient input structure and to meet the problem of unemployment through national solutions: the cost is best met through the public exchequer. Raising the necessary resources will be a challenging problem, of course.[43] The role of government as a producer is now changing. Most of the governments in developed and developing nations have become facilitators. As a facilitator, it should be a duty of any government to provide basic facility and sustainable conditions to labour, inside or outside the divested SOEs.

[42] Hartall stands for strike and talabandi stands for Lock-out.

[43] V.V Ramanadham, *The Impacts of Privatization on Distributional Equity*, Routledge, London, p. 31.

Carnaghan and Bracewell stated that the expectation of most employees in SOEs has been one of total security of employment. This security has been provided at taxpayer's expense. Those who argue that competition is bad because it leads to job losses rarely state that overstaffing is good because it maintains jobs, though this seems to be their assumption. However, as the French economist, Bastiat pointed out, those who argue do not break windows 'deprive' glaziers of work, but that does not make a window-breaking a useful activity, since—disregarding the transfer of wealth—the community as a whole loses from it.[44] Enterprises, which are currently in operation, the aggregate downsizing of labour following divestiture has been in order of 25 per cent (see Table 4.10). This may be taken as a measure of "fat" in creating employment in the public sector.[45]

Mukud Khan in a paper states that most of the public enterprises are overstaffed. Even in cases where production has virtually stopped, surplus workforces in the SOEs have not been removed. Over-time is another related problem. It amounts around 50% to 80% of the total wage bill of SOEs. The combined effect of overstaffing and excessive overtime benefits have given rise to inflated wage bills which in some cases exceed the value addition.[46] Downsizing of labour as productivity-enhancing measure is however the main

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[44] Robert Carnaghan and Barry Bracewell-Milnes, "The result of competitive tendering in Privatization: critical perspectives on the world economy" in George Yarrow and Piotr Jasinski vol.ii p. 296.

[45] Sen, p. 12.

[46] R. Makud Khan, Labour and Management Issue and Stockholders in Privatization Bangladesh Experience, paper presented in a seminar at DCCI, in 1996.

reason why organized workforce often oppose any privatization moves. Apart from the vested interest of clientless labour politics, the negative experience of earlier round of privatization is also to be held responsible for the lack of labour support for privatization. Data represented in table-4.10 and 4.11 may partly explain why this could be so. Sen states in his unpublished work that this impact of closure was particularly devastating for the welfare of labour. The aggregate loss of jobs due to closure alone has been estimated to be 39,000 which is a tall figure by any reckoning. The BIDS data in Tables 4.10 and 4.11 however show that when the enterprises are in operation after divestiture, many of the "old" workers can retain their jobs by their new private sector employers. The retention rate of the pre-divestiture workers for Sen's sample is noteworthy. Thus, of those workers and employees who are currently employed in the privatized sector, about 60 per cent of them worked previously in the same enterprises before divestiture took place. [47] A World Bank report states that an important implication of the politicization of the union movement is that steps to overcome labour opposition to privatization cannot be confined to economic measures designed to adequately protect the interests of 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 labour compensation measures. This would contribute to the process of separating what are fundamentally economic issues (for routine trade activities) from national-level politics (which have broader objectives

[47] Binyak Sen, op. cit. No, p. 13.

and constituencies to address). Excess employment in SOEs follows 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 union, which guarantee the succession of the members of the same family into employment in the mills. The JUMC 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 mill may have come from exiting 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.[48] We will find contradictions if we will recall the statement given by Firdaus Ara Begum that most of the private enterprises are not even interested in seeing the bio-data of the people retrenched or voluntarily retried from nationalized enterprises. Representative of the DCCI are facing problems in solving these issues. At the time of fieldwork researcher has also seen that number of local chambers and labour representatives are in crisis in finding jobs, especially in Dhaka. The government has recently decided to reduce 24,000 workers, out of

[48] In an Interview Sen also admitted that the chapter on labour was written by him in Bangladesh Privatization and Adjustment, March 10, 1994, Report No. 12318-BD, World Bank p. 47.

the 50,000 now working with BJMC mills,. The decision to lay off 190 staff at the head office and 55,000 from 22 running mills in the first phase, followed by more reduction, would hurt the jute industry.

Economist Mohaad Quamrul Islam has recently calculated the further closure and labour retrenchment. Four more jute mills—Quami Jute mill at Sirajgong, Peoples Jute Mill, Stat Jute Mill and Eastern Jute mill in Kulna—are likely to be closed. On the other hand, reports go, more then 100 industrial units may be privatized or closed; which might mean retrenchment of about 75000-employees. Apart from this, measures for rationalization of manpower might be put into effect in sectors like BCIC, BADC, BSFIC, and BSEC to cut in government expenditures; which in other words would mean saving public money every year.[49]

In the process of privatization, labour should be on of the major priority for the policy makers. In case of privatized jute mill and also recent closed Adamji, labour was the last priority and in other cases also the proper concern has been disregarded in the privatization process.[50]

World Bank reports on privatization states that experience from other countries suggests that a number of reactive and proactive options are available for overcoming the problem of labour opposition to privatization. These measures include various things. Advance notification regarding shutdown or large layoff; provision for

[49] *Bangladesh Observer*, July 7, 2003, Dhaka.

[50] Many jute mill workers are making Pitha (a food item) or selling Lungis in Dhaka. Workers who have given their sweats and toiled to Jute mill, are now uncertain, insecure.

severance pay; financial inducements for early retirement; various elements of a safety net programme; provision for skill training leading to both self-employment and possible redeployment offers in new jobs in the private sector; self-employment-oriented credit schemes; advocacy campaigns to develop a social consensus on privatization issues; enforcement of contracts relating to employment practice after divestiture; an effective code of industrial relations; and workers' participation in ownership of the kind as envisaged in an Employee Stock Options Programme (ESOP).[51] It has seen that these steps can be possible if labour unions has a strong commitments for labour. In case of Bangladesh labour union is fractured and less committed. Even after the government of Bangladesh commitment to introduce ESOP in the industrial policy of 1999 the actual benefits from ESOP is limited.

4.5.2 Privatization Methodology

In the last three decades, divestiture is one of the most important method of privatization in Bangladesh. In an international dialogue on reform of SOEs and privatization jointly organized by CPD and World Bank, several scholars discussed about privatization methods in Bangladesh.[52] Some of them argued that instead of directly selling off the SOEs, it might be more sensible to float their shares in the stock market exchange. However, this view was challenged by the

[51] *Bangladesh privatization and Adjustment*, March 10, 1994, Report No.12318-BD, World Bank, p. 49.

[52] Argument based on the CPD Monograph No.2 on Governance and Development, *Reform of State-Owned Enterprises and Privatization*, Ed. Rahman Sobhan, M. M. Akash, and Tanweer Akram, Pathak Samabesh, Dhaka, 1998, p. 106.

argument that floating shares of SOEs might send wrong signals to buyers about the viability of the enterprise, pointing out the limited contribution of SOEs in the country's GDP. It was also argued that, it was better not to sell the SOEs but to try to improve their management and technical efficiency. One of the arguments also focussed on the profit sharing with workers, as an option to improve the efficiency of SOEs. There was also an argument that in the SOEs, managers had little authority to fix prices or anything else, an arrangement that should be corrected if SOEs were to be expected ever to improve their performance.

Recently concluded study by Dowlah claimed that there is a dearth of buyers and entrepreneurs, and that the market is so small that it cannot absorb the proposed privatization method, rather, the constraints to privatization will be: the administrative ability of the government and the private sector to handle the volume of transaction required; and the regulatory, bureaucratic, and political impediments that exist. For utilities and gas and other large SOEs, foreign capital will be essential for their successful privatization. It is also clear that GOB could do more to enhance its returns. Its marketing of transactions has been poor, the information presented has been meagre and it has not been at all innovative in the privatization techniques proposed. Dowlah again pointed out that the more frequent criticism of recent privatization has been that even when bidding procedures were adopted, the sale process has not been truly open and competitive.[53]

Examining these arguments, one can only say that there is a clear-cut indication of the methodological imbalance in the

[53] See the detailed discussion on this topic in Privatization Experience in Bangladesh, 1991-96, Dr. CAF Dowlah, World Bank Library, Dhaka, 1997.

privatization reform in Bangladesh. Past experience in privatization indicates that the proper evolution of the methods and the balance between the policy formulation and implementation is far from practice. Governments have failed to face the problem of SOEs divested prior to 1990. The slow pace of privatization during the period 1991–96 was the outcome of the many causes. In this list the most important is the failure of the Privatization Board. Board was without a chairman for a long time in this period. Government was not keen for any lessons from the past. Divestiture of SOEs has not been serious business for the government. After the appointment of the Enam Ahmad Choudhury the process has become comparatively serious. But in the current wave of privatization also, instead of learning from past failures, the government again tried to privatize a large number of SOEs in the present phase. Humphrey stated:

> In Bangladesh, it has been, for better or worse, divestiture as the primary method used. Given the historical and economic circumstances, perhaps divestiture was a logical path to pursue in Bangladesh. But there is little evidence that alternative paths were seriously considered, and not much thought seems to have been given to how best to pursue even the divestiture route.[54]

Allahuddin Mohhamad also stated in his doctoral thesis that:

> In most of the previous privatization of SOEs, the appropriate methods of valuation of assets and liabilities were not followed which resulted in an unrealistic valuation of assets of enterprises for privatization. At the same time, the procedures of privatization were not transparent. The buyers were not furnished with correct information; rather often they

[54] C.E. Humphery, *Privatization in Bangladesh*, UPL, Dhaka, 1991, p. 129.

> were saddled with unrealistic obligations (huge borrowings from the central bank and non-existent assets). There were no proper policies of selecting capable buyers also.[55]

The success of the methods differs from country-to-country. Every country has to choose and practice some special method. Due to certain causes privatization will not succeed much in Bangladesh. But this shouldn't be viewed as a failure of the policy. In the coming years, if Bangladesh is unable to produce a suitable method for the approaching privatization, then the promised benefits from privatization will be far from the reality. All the current methods like preparation of SOEs for privatization, tender procedures, payment procedures and the example of tender notice of nine selected SOEs is enclosed in the Annexure I. The current policy of international tender is also less attractive for the international players. In case of Bangladesh Biman, international tenders were dropped many times. Because of the critical condition of SOEs in most of the sectors international players are not very keen to invest. We will present the current picture of the SOEs in the next phase of this chapter. The mismanagement and inadequate stock markets are also disincentives for the domestic players.

4.5.3 Regulatory Mechanism

In the concluding section of the doctoral thesis, Allahuddin Mohhamad stated that Bangladesh never had a coherent or consistent privatization policy or programme. Often the government announced bold policies or programmes envisaging large-scale privatization, but then retreated. Lack of a strong institutional

[55] Mohhamad Allahuddin, Ph.D Thesis "*Privatization in Bangladesh: Issues, Strategies and Possibilities*" submitted to Aligarh Muslim University, Under the supervision of Dr. Abdul Quayyum Khan, p. 176.

mechanism for the implementation of the privatization programme is a prime cause for this. The governmental bodies that were responsible for disinvestment or privatization progress until 1993, the Disinvestment Board and the Inter-ministerial Committee on Privatization (ICOP), lacked adequate mandate, autonomy and staff to implement privatization.[56] After having three decades of experiences, the government has recently established a regulatory commission for telecom sector and in other selective sectors. In other utilities sectors, regulatory mechanisms are also important. This is not only for the fast development of the projects but also in the long run for benefits of the poor people of Bangladesh. Apart from this, government has to try to make a proper coordination between different institutions like privatization commission, SOEs, the Ministry of Finance, the Ministry of Industries and the Ministry of Commerce. Unfortunatly, there was lack of co-ordination which resulted in policy anomalies and a gap between announcement of policies and actual implementation. It is a 'temporal distance', which is very much in practice in the developing and transition economies.[57] The present institutional mechanism for privatization is presented in Annexure II.

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[56] Ibid.

[57] Temporal distance simply measured the length of time since the date equity was first transferred to the effective ownership and control of private investor from the state. In a recent study by Burkhand N. Scharge and Paul M. Valler, this term has used to know the impact of privatization-related factors on material investment-decision taken between 1986–2001 in telecom privatization from 15 industrialized and emerging-market countries. The title of this research paper is *State Ownership and Temporal Distance in Privatizing Telecom Investment:Testing Mainstream Versus Alternative Theoretical Perspective in Industrialized and Emerging*-Market *Context*, Harward and Tufts University, Working Paper, September, 2002.

4.6 PRESENT CONDITION OF SOES

The current list of SOEs given in Table 4.12.

Table 4.12
List of State-Owned Enterprises

Manufacturing Sector	
BTMC	Bangladesh Textile Mils corporation
BJMC	Bangladesh Jute Mills Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BCIC	Bangladesh Chemical Industries Corporation
BFIDC	Bangladesh Forest Industry Development Corporation
Electricity, Gas and Water Sector	
BPDB	Bangladesh Power Development Board
DESA	Dhaka Electricity Supply Authority
REB	Rural Electrification Board
BOGMC	Bangladesh Oil, Gas and Mineral Corporation
BPC	Bangladesh Petroleum Corporation
CWASA	Chittagong Water and Sewerage Authority
DWASA	Dhaka Water and Sewerage Authority
Transport and Communication	
BSC	Bangladesh Shipping Corporation
BIWTC	Bangladesh Inland Water Transport Corporation
BIWTA	Bangladesh Inland Water Transport Authority
BBC	Bangtadesh Birnan Corporation
BRTC	Bangladesh Road Transport Corporation
CPA	Chittagong Port Authority
CPDMB	Chittagong Port Dock Management Board

MPA	Mongla Port Authority
MPDMB	Mongla Port Dock Management Board
Trading	
TCB	Trading Corporation of Bangladesh
BJC	Bangladesh Jute Corporation
Water Resources	
BWDB	Bangladesh Water Development Board
Agriculture	
BADC	Bangladesh Agriculture Development Corporation
BFDC	Bangladesh Fisheries Development Corporation
Construction	
RAJUK	Rajdhani Unnayan Kartripakhya
CDA	Chittagong Development Authority
KDA	Khulna Development Authority
RDA	Rajshahi Development Authority
Service	
BFFWT	Bangladesh Freedom Fighters' Welfare Trust
BFDC	Bangladesh Film Development Corporation
CAAB	Civil Aviation Authority of Bangladesh
BSCIC	Bangladesh Small and Cottage Industries Corporation
BEPZA	Bangladesh Export Processing Zone
BHB	Bangladesh Handloom Board
BSB	Bangladesh Sericutture Board
BTB	Bangladesh Tea Board

Source: Monitoring Cell, Ministry of Finance and Sector Agencies, Dhaka, Bangladesh.

Table 4.13 indicates various operational indicators of SOEs in the financial year 1991–02. There is a positive trend in operating revenue in the period 1991–2002. The cost of goods and services has continuously grown. We could not find any continuous trend in the value addition. Value addition has increased drastically almost three-fold in 1992 but in 1993 it has just dropped. In 2001 it was lowest during the entire period but 2002 again had shown increase in it. Wage bill has a continuous trend of growth. In the analyzed period the wage bill has increased by two fold. Operating surplus, which was positive till 1996, started becoming negative from 1997 and this trend has continued till 2002. Depreciation has also a very haphazard trend. Depreciation was highest in 1992, it was dropped in next year but again it has an increasing trend except the year 2002. Profit after tax was always negative expects in the year 1994. Total liabilities have a continuous growth and it has increased more than two-fold. Total assets have grown two-fold. The number of personnel has reduced from 2,83,000 in FY 91 to 2,45,000 in FY 02.

Table 4.13 State Owned Enterprises Operational Characteristics (in billion Taka)

	FY 91	*FY 92*	*FY 93*	*FY 94*	*FY 95*	*FY 96*	*FY 97*	*FY98*	*FY99*	*FY00*	*FY01*	*FY02*
Operating Revenue	113.63	129.17	137.73	144.48	160.01	167.81	166.64	186.72	201.91	216.87	255.94	296.8
Cost of Goods and Services	89.54	66	102.2	105.6	125.08	135.52	140.34	149.45	161.96	192.41	234.16	262.05
Value Addition	24.09	63.17	35.52	38.88	34.93	32.29	26.3	37.27	39.95	24.46	21.78	34.75
Wage Bill	10.75	13.07	14.93	14.88	14.97	16.06	15.93	15.95	15.96	17.25	18.33	19.73
Depreciation	6.95	43.25	11.04	11.39	13.66	12.62	15.79	16.5	19.5	19.9	21.19	20.81
Operating Surplus	6.4	6.85	9.56	12.61	6.3	3.61	-5.42	4.82	4.46	-12.69	-17.7	-5.79
Non-operating Income	-0.03	-2.08	1.46	0.78	0	5.58	3.08	3.56	2.47	3.99	5.71	6.1
Provident Fund	0.11	0.1	0.15	0.17	0.16	0.19	0.18	0.23	0.22	0.23	0.24	0.29
Subsidy	0.01	0.16	0.01	0.01	0.01	0.09	0.09	0.09	0.36	0.14	0.09	0.09
Interest	9.14	11.21	10.41	7.3	8.6	7.91	7.87	9.81	8.99	9.58	12.32	14.65
Direct tax	3.82	5.18	4.69	5.59	2.09	1.51	1.09	1.2	2	1.32	1.83	2.12
Dividend	2.56	3.66	4.29	5.11	2.06	2.1	1.47	1.76	3.16	1.7	1.55	2.51
Retained Income	-9.26	-15.22	-8.52	-4.79	-6.61	-2.44	-12.87	-4.53	-7.09	-21.39	-27.88	-19.17
Profit After Tax	-6.7	-11.56	-4.23	0.33	-4.55	-0.34	-11.4	-2.77	-3.93	-19.69	-26.33	-16.66
Gross Savings- a*	-2.32	28.03	2.53	6.61	7.05	10.17	2.93	11.97	12.45	-1.49	-6.69	1.64
Capital Expenditure	37.16	19.83	22.96	25.14	29.02	28.7	29.54	31.47	31.38	35.26	40.63	56.14
Loan Repayment	8.64	11.77	15.51	14.23	14.66	12.01	10.67	13.01	16.68	19.86	17.77	22.23
Deficit -b*	-48.11	-74.56	-35.95	-32.76	-36.62	-30.54	-37.28	-32.51	-35.61	-56.61	-65.09	-76.83
Equity Financing	4.36	3.97	8.65	9.62	23.34	6.2	10.77	8.98	8.36	10.43	25.08	25.1
Long Term Borrowing	17.4	29.55	19.85	12.64	22.02	23.54	17.93	18.63	22.79	33.07	26.82	43.52
Residual Financing	26.34	41.05	7.45	10.5	-8.73	0.8	8.59	4.91	4.46	13.11	13.19	8.21
Equity Stock	88.17	129.21	168.31	198.58	215.35	219.27	237.64	226.47	244.07	233.81	224.93	229.37
Total Liabilities	332.59	340.29	409.67	415.63	435.7	440.42	464.99	482.83	517.68	583.61	674.27	730.03
Total Asset	420.76	469.5	577.98	614.21	651.05	659.69	702.63	709.3	761.75	817.42	899.2	959.4
Personnel(000)	283.07	306.7	307.65	276.15	264.5	266.81	267.66	252.55	245.95	243.62	244.67	245.448

a*Gross saving is equal to retained earning plus depreciation, b*Deficit is equal to gross saving minus capital expenditure minus loan repayment

Source: Monitoring Cell, Ministry of Finance and Sector Agencies, GOB, Dhaka.

The profit-loss position of SOEs are given in (Table 4.14).

Table 4.14

Trends in Net Profit/ Loss of State Owned Enterprises (in billion taka)

	FY 91	*FY 92*	*FY 93*	*FY 94*	*FY 95*	*FY 96*	*FY 97*	*FY 98*	*FY 99*	*FY 00*	*FY 01*	*FY 02*
Manufacturing	-4.44	-6.08	-4.03	-3.1	-2.86	-4.62	-8.24	-5.97	-6.1	-4.59	-6.53	-7.07
BTMC	-0.58	-0.43	-1.36	-1.53	-1.17	-1.34	-1.63	-0.96	-1.02	-0.64	-0.55	-0.52
BJMC	-2.47	-3.18	-0.86	-0.68	-0.34	-1.07	-2.52	-2.76	-2.95	-3	-3.81	-3.86
BSEC	-0.86	-1.08	-1.03	-0.9	-0.68	-0.65	-1.03	-1.12	-0.05	0.03	0	0.07
BSFIC	-0.12	-0.72	-0.86	-0.2	0.08	-0.38	-0.65	-0.39	-0.6	0.63	-0.47	-0.2
BCIC	-0.34	-0.55	0.21	0.25	-0.75	-1.21	-2.39	-0.67	-1.42	-1.5	-1.55	-2.61
BFIDC	-0.06	-0.11	-0.31	-0.05	0.01	0.03	-0.02	-0.07	-0.06	-0.13	-0.15	0.05
Energy	0.16	-4.47	0.51	1.45	-3.79	2.12	-4.44	1.61	0.59	-17.59	-21.06	-10.66
PDB	-2.8	-7.48	-3.53	-2.79	-4.81	0.59	-1.26	-0.08	-3.2	-3.94	-4.63	-4.56
DESA		-1.24	-1	-1.85	-2	-1.39	-1.44	-1.51	-1.84	-2.34	-3.69	-3.34
REB	0.11	0.22	0.43	-0.38	0.39	0.51	0.45	0.37	0.44	0.45	0.3	0.47
BOGMC	0.29	0.52	0.73	1	1.2	1.44	1.27	1.33	1.65	4.79	1.97	2.02
BPC	2.56	3.52	3.88	4.71	1.43	0.97	-3.46	1.5	3.53	13.5	-15	-5.25
Utilities	-0.07	-0.05	-0.03	0.01	-0.05	-0.07	-0.05	-0.01	0.12	0.02	-0.04	0.1
DWASA	0	0	0.01	0.04	-0.02	-0.04	-0.03	0.03	0.17	0.05	0.02	0.16
CWASA	-0.6	-0.06	-0.04	-0.03	-0.03	-0.03	-0.02	0.04	-0.05	-0.03	-0.06	-0.06

Table 4.14 Contd...

Table 4.14 Contd...

	FY 91	*FY 92*	*FY 93*	*FY 94*	*FY 95*	*FY 96*	*FY 97*	*FY 98*	*FY 99*	*FY 00*	*FY 01*	*FY 02*
Transport and Communication	-0.22	0.68	1.4	1.64	1.73	1.96	1.04	1.09	1.12	1.89	0.77	0.51
BSC	-0.53	-0.54	-0.17	-0.16	-0.13	-0.15	-0.25	-0.09	-0.3	-0.32	-0.12	0.05
BIWTC	-0.04	-0.07	-0.03	-0.02	-0.01	0.02	0.09	0.07	-0.06	-0.01	0.03	0.1
BIWTA	-0.03	0	-0.01	-0.05	-0.17	-0.22	-0.19	-0.26	-0.26	-0.3	-0.52	-0.19
CPA	0.51	0.49	0.44	0.48	0.64	0.92	1.11	1.03	0.85	1.27	1.31	0.82
MPA	0.19	0.23	0.22	0.15	0.2	0.2	0.17	0.2	0.24	0.21	0.14	0.04
BIMAN	-0.25	0.35	0.68	0.65	0.63	0.5	-0.57	-0.58	-0.17	0.01	-1	-0.98
BRTC	-0.27	-0.22	-0.23	-0.11	-0.09	-0.05	-0.05	-0.08	-0.07	-0.11	-0.16	-0.16
Other	0.19	0.45	0.5	0.7	0.65	0.74	0.74	0.81	0.89	1.14	1.1	0.84
Commercial	-1.43	-1.65	-2.13	0.14	-0.05	-0.03	-0.05	-0.01	-0.02	-0.02	0.08	0.2
BJC	-1.44	-1.67	-2.04	-0.04	-0.06	-0.02	-0.01	0.01	0.01	0	0	0
TCB	0.01	0.02	-0.09	0.18	0.02	-0.01	-0.04	-0.02	-0.02	-0.03	0.08	0.2
Agriculture and Water	-0.82	-0.12	-0.12	-0.1	-0.02	-0.1	-0.15	0.09	-0.5	-0.26	-0.24	-0.28
BADC	-0.81	-0.1	-0.11	-0.13	-0.12	-0.13	-0.16	0.07	-0.24	-0.27	-0.25	-0.33
BWDB	0	0	0	0.03	0.09	0.03	0.01	0.02	0	0.01	0.01	0.03
BFDC	-0.01	-0.01	-0.01	0	0	0	0	0	0	-0.01	0	0.01
Construction	0.13	0.17	0.17		0.3	0.26	0.15	0.11	0.31	0.32	0.28	0.22
RAJUK	0.07	0.14	0.14	0.2	0.19	0.17	0.05	0.03	0.24	0.24	0.16	0.14
other	0.06	0.03	0.03	0.06	0.11	0.09	0.1	0.08	0.07	0.08	0.12	0.07
Service	0	-0.03	-0.01	0.02	0.18	0.15	0.32	0.32	0.29	0.47	0.41	0.33
Total	**-6.7**	**-11.55**	**-4.24**	**0.32**	**-4.55**	**-0.34**	**-11.4**	**-2.77**	**-3.94**	**-19.76**	**-26.32**	**-16.66**

Source: Monitoring Cell, Ministry of Finance and Sector Agencies, GOB, Dhaka.

The Table 4.14 indicates that in manufacturing sector the net profit-loss of SOEs is almost doubled in the period 1991–2002. In 1991 it was Tk [–4.40] billion which became Tk [–7.07] in 2002. In energy sector the net profit-loss is negative in last three years during 2000–2003. The negative trend was also seen in previous years. Most interesting picture of energy sector is that where as the highest net profit was Tk 2.12 billion in 1996, but the highest net loss is Tk 21.06 billion in 2001. In transport and communication, sector the situation has quite improved during the period. The commercial sector SOEs also improved and the net profit-loss improved quietly and it has grown twenty-fold. In agriculture-related SOEs, the net profit-loss is still not satisfactory. The overall picture of SOEs indicates that the trend in net profit: loss is negative and it worsened three-fold during the period 1991–2002; from Tk [–6.70] billion in 1991 to Tk [–16.66] billion in 2002. Overall trend in the net profit/ loss of SOEs is presented in the Fig. 4.6 below.

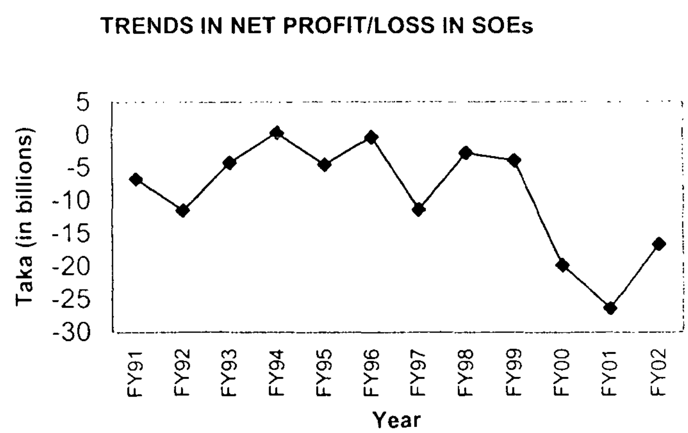

Fig. 4.6

Government's borrowing form the Bangladesh Bank for various public sector expenditures has widened in these days.[58] The data presented by Bangladesh Bank shows heavy borrowing from the Bangladesh Bank (the central bank of the country). Heavy borrowing has been drawn by many SOEs. Bangladesh Biman, Ctg Still Mill, Bangladesh Textile Mills, Bangladesh Shipping Corporation, Bangladesh Steel Mill Corporation, Meghna Tex Indinder, Jannapath Textile Mill Ltd, Deshbandu Sugar Mill Ltd, Bangladesh Diesel Plant Limited, Nationalized Bank like Sonali, Janta, Agrani, Rupali and Jute industries public enterprises are the main borrowers from the Bangladesh Bank.

Currently, government is engaged in borrowing a huge amount of money to solve the various problems within public enterprises. It should be a concern for the policy makers to control this huge borrowing. It is imperative for stakeholders in privatization to think whether this policy should be continued or stopped. World Bank has strongly criticized GOB for protecting loss-making, sick and unproductive industries. The world Bank has also criticized the government for the new projects. On the one hand, the government is fully dedicated for privatization; on the other it is up to many new public projects. The World Bank report states:

> There are now clear indications of a policy reversal. In FY 96-98 a number of new manufacturing projects, including some large ones, are being initiated under the public sector. It may be noted that while the

[58] The detail information of governments borrowing can be seen on the Bangladesh Bank's website http://www.bangladesh-bank.org/econuata/govtdomdebt.

> share of Annual Development Plan (ADP) allocation for industry is shown to decline to 1.2 per cent in FY 98, the 11 new projects being initiated for FY 98 have a large combined project cost of Taka 22.5 billion, equivalent to 18 per cent of the total FY 98 ADP size. If these investments go ahead, the budgetary share of industry will rise again.[59]

This report gives the detailed idea of the various projects under the government consideration. We can see it in Annexure III. In many transition economies this dilemma can be easily seen. One can also see the clear differences between the World Bank and GOB on the issue of 'Jute sector' privatization.

> Since 1982 the government has denationalized about one-half of the country's jute mills, amounting to around one-third of production capacity. Privatization, however, does not appear to have directly increased efficiency measured by profitability, and the jute mill sector is the country 's largest loss-maker. Despite the fact that the number of employees working in the privatized jute mills has been reduced, profitability does not appear to have improved. By 1997, eight of the privatized mills had closed down in the previous two years and another 15 of the 32 remaining privately-owned mills were on the verge of closure. The industry requires new investment and a small but predetermined subsidy to remain viable. Such a subsidy could be justified on the grounds that the jute sector directly and indirectly employs millions of people whose next best employment option may be very unfavorable in the medium term. The World Bank offered Bangladesh a US$250 m. Jute Sector Adjustment Credit and simultaneously insisted that nine public-sector mills be closed down or

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[59] Bangladesh Public Expenditure Review 1997, *www.worldbank_Bangladesh.org*. website assessed in March 2002.

privatized by June 1997. The adjustment credit was, in the end, not fully taken up. The disagreement with the World Bank was essentially about whether the jute industry in its present form can be viable on a purely market basis. The industry argues that some adjustment for exchange-rate overvaluation and for past losses has to be made.[60]

Bangladesh is really facing two-side pressures since a long time. On the one side, the country has to face the pressure of a large number of workforce employed in SOEs and on the other side, the external pressure from the donor institutions to start more cost-effective and techno-friendly units where very few labour can be employed. In a totally adverse situation, the government has to do two different exercises at the same time. The present condition of SOEs is really poor. The high level of SOEs losses and huge borrowings from the Bangladesh Bank is not viable in the present phase of economic development. The decision of privatization needs a revised approach.

4.7 PRESENT STATUS OF PRIVATIZATION

The privatization programme in Bangladesh has been lagging conspicuously in recent years, with only 12 SOEs being divested during 1993–96. Some 64 manufacturing SOEs were targeted for privatization in FY 97 but very little progress was achieved during the year. The activities of the Privatization Board (PB) were seriously hampered by the absence of a chairman for a long time. The appointment of a private sector representative as chairman has led to

[60] *The Far East and Australia*, 32nd edition, Europa Publication, London, 2001, p.146 (In 1998/99 the few remaining jute mills in operation collectively made a loss of US $45m.and the private sector mills made a loss of US $15m.)

a revival of activities of the PB after a long period of standstill. A strong political commitment to the privatization programme and a much more decisive stance are warranted for the much needed success of the programme.[61] Recently, Enam Ahmed Choudhery has been appointed as the new chairman of the PB by the new government. The cabinet has approved revised privatization policy clarifying the government's objective and approach to privatization. The government has announced a plan to privatize 103 SOEs during FY03. So far, Desbhandhu Sugar Mill has been privatized at a sale price of Tk.177 million, and an additional eight enterprises are in the process of being handed over to the private sector for a combined price of Tk.1.0 billion. Tendering of twenty more enterprises is under process. The current list of privatization is presented in Annexure IV. In this ongoing privatization process, the opportunities for foreigners are presented in Annexure V.

4.8 CONCLUSION

The theory of privatization, which claims that privatization generates efficiency and competition, has not succeeded much in Bangladesh. The study of privatization in Bangladesh presented that Bangladesh is not capable in transparency, fairness, a strong political support, related structural reforms, and restructuring. Because of a very small class of entrepreneur and a very low level of foreign investment, the space vacated by the state is still empty. Many SOEs related issues, which were high up at the time of nationalization, have become more

[61] Bangladesh Public Expenditure Review op. cit. No. 59.

critical after privatization. The policy of divestiture or privatization was not pre-planned like the policy of nationalization. Bangladesh needs a credible privatization. In the present situation free trade became the saga of the regional trade blocks and also at the global level. Investment also became globalized. The role of the state is very critical and important at this juncture.

The GOB has recently recognized this critical role. The Fifth Five-Year Plan document stated:

> The government, as a partner as well as promoter of the private sector, will reorganize its foreign mission so that they can assist the local private investors in marketing their products abroad. They will also provide information about market and opportunities in Bangladesh to the prospective foreign investors. The transformation of the role of the state from one of regulator to that of a partner and facilitator will necessitate changes in the nature and content of the training of the civil servants. Such change will reflect the new dimensions that have emerged as a result of the sharper focus on the private sector and adoption of market economy. Representatives of private sector regularly participate in such courses both as resource persons and as participants.[62]

But in this regard we can't ignore, some comment by the socialist economist of Bangladesh like Rahman Shoban and M.M. Akash, who still have confidence in the government's direct involvement in setting up some new SOEs, which can generate more employment. Sobhan stated:

[62] Fifth Five-Year Plan, p. 138

> Today such an option is no longer available to the GOB since donors have not only cut off all aid to finance public enterprises in the manufacturing sector but aid conditionalities forbid the GOB from setting up any new SOEs.[63]

Closure of the major jute industry, Adamjii mill, or many other jute and textile mills indicates the government's failure to manage SOEs. Ultimately the question for survival of enterprises in Bangladesh is now imperative. In the annual budget 2002–03, Finance Minister Md. Saifur Rahman, stated:

> One of the main challenges before us is globalization. Overall macro-economic stability is one of our priority areas and towards that end we must endeavor to utilize this opportunity of globalization.[64]

In the current wave of globalization, Bangladesh has to work a new methodology of privatization, which can suit the country for a long time. The rationale of privatization should not be only to divest or privatize SOEs, but also to make sure of the survival of the enterprises after privatization. The question of privatization is no more the question of a theoretical discourse but a practical observation. In a discussion, the chairman of the Privatization Commission stated that presently the main focus of privatization is on manufacturing sector, we will later privatize State Owned Utilities.[65] But Bangladesh first needs a fast privatization approach in

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[63] Rehman Sobhan, Privatization in Bangladesh: An Agenda in Search of a Policy, CPD, Dhaka, June 1997, p. 30.

[64] *Annual Budget 2002-03*, Part-2, Ministry of Finance, Dhaka, p. 4.

[65] Interview Chairman Privatization Commission, Enam Ahmed Choudhery, 5 March, 2003, Dhaka.

utilities where state is really unable to do much. Only the fast development of utilities can give a wider base for industry as well as services and other business activities. Electricity, telecommunication, gas and road are some areas where Bangladesh really needs a effective regulatory mechanism. These sectors need an aggressive managerial change and freedom of the enterprise to operate like a private firm, even if ownership of assets is not fully transferred. Management contracts, lease and some other partial privatization methods can strengthen the utility sector, which can lead Bangladesh in future. In a situation where the capital markets and the domestic private sectors are weak, where regulatory practices are facing everyday problems, and the privatization environment is totally out of control, a greater private–public mix through partial privatization and strong restructuring before and after privatization has become an urgent need of this hour. The past results of privatization in Bangladesh only say that we may be free in formulating policies of privatization but getting benefits from privatization is more demanding. Bangladesh became a leader of privatization in terms of the number of privatized enterprises, but failed to achieve the promised benefits of privatization.

Chapter 5

TELECOMMUNICATION PRIVATIZATION: COMPARISON BETWEEN BANGLADESH AND INDIA

5.1 INTRODUCTION

Telecommunication sector is one of the foremost areas of privatization in the world. According to the latest 'information' the privatization revenues from telecommunication is around 30%, globally which is highest compared to other sectors like oil and gas (10%), electricity (17%), banking (12%) and others (31%).[1] In most of the developed nations, this sector was first or second on the government privatization list. In developing countries also it is a main area where private players are taking interest because of the increasing profit in relation to the cost. A World Bank study recently stated:

> For most of the industrial and developing countries, state monopolies in telecommunications were the standard model because of the size of start-up investments, for instance, to wire millions of consumers and scores of cities together and because of the cost of maintaining that service. A single, monopoly enterprise, it was long held, could best convert economies of scale into improved service at lower cost. Digital and cellular technologies, however, have made that natural monopoly rationale obsolete. It has also prompted the dismantling - often against bitter resistance - of lumbering state enterprises in many countries. More nimble private operators are taking their place, demonstrating that for cellular and digital technology, being small has little disadvantage in cost and being privately and competitively managed has huge advantages in efficiency.[2]

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1 Henry Gibbon's "World Economic Orthodoxy" *Privatization International*, December 1998,as cited in William Megginson's Privatization: *Think Again*, Foreign Policy, No.118 Spring 2000 p. 16.

2 *Bangladesh 2020:A Long-Run Perspective Study*, The World Bank Bangladesh, http://www.worldbank-bangladesh.org, website assessed in Jan. 2002.

Sharkey stated that telecommunications was long viewed as a natural monopoly. An activity is said to be a natural monopoly if supply by a single firm is the most cost-efficient form of supply.[3] It was seen as most efficient to have one and only one producer. Because costs in this industry fall as the scale of production increases, the larger firm in the industry achieved the lowest costs and could underprice its rivals. As it did so, it would come eventually to dominate the industry.[4] In an International conference in Ficci Mukherji stated that global demand for liberalizing this sector is natural. The management of telecommunications in all South Asian countries started as state-sponsored activity–both because of the need to support heavy investment and also to exercise control over them. However, very rapid advances in technology have constrained the capacity of governments to supply quality services. This has clearly demonstrated the need for greater flexibility and initiative, which the private sector alone is capable of performing. There is hence the need to facilitate greater private sector initiative while at the same time ensuring a healthy regulatory framework that could ensure that public monopolies do not transform to private ones.[5]

World Development Report (1999) stated:

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[3] W.W. Sharkey, The *Natural Monopoly in Telecommunications, as cited in Privatization:Critical perspectives on the World Economy* Ed.George Yarrow and Piotr Jasinski Vol. 2, Routledge, 1996, London, p.182.

[4] *World Development Report*, World Bank 1999, Oxford University Press, p. 64.

[5] Indra Nath Mukherji in *South Asian Growth Quadrangle: Emerging Opportunities for Economic Partnership*, (ed. Mahendra P. Lama), FICCI, New Delhi, 2001, p. 79.

The World Trade Organization's General Agreement on Trade and Services(GATS)), part of the 1994 Uruguay Round set of agreements, brought the service sector, including telecommunication, into multilateral trade negotiations for the first time. After the Uruguay Round, the Negotiating Group of Basic Telecommunications was created to continue the progress that the Round had started by February 1997. Sixty-nine WTO members, representing more than 90 per cent of the world telecommunications market, had tabled internationally binding commitments to liberalize basic telephone services. In these talks, 31 industrial and 24 developing countries made commitments to liberalize their voice telephone services. Other services to be liberalized include long-distance international calls and voice telephony, data transmission, private leased circuits, mobile and satellite services, and trunk services. Most participants made commitments to all or part of a set of pro-competitive regulatory principles. The likely benefits for signatories include greater competitiveness, increased FDI, and a better price–quality mix of consumer services. In a completely changed environment of the globe, it is difficult to keep this sector only in the governments hand. Past experiences of different countries also shown that inefficiency and under investment by state telephone monopolies led to bad services. An equally important cause of the poor performance of many telecommunications providers has been lack of competition combined with the failure of their public telecommunications monopolies. More than seventy developing countries are now shifting to private, competitive markets.[6]

Holsman stated that industries such as telecommunications, finance and energy are being restructured to respond to the needs of

[6] *World Development Report*, op. cit. No. 4, p. 65.

integrated world economy. The global structure of these industries demands their participation in the privatization process.[7] Alam stated that the world is witnessing an explosion in the telecommunication and information society, especially the rapid growth of the Internet and mobile communications, the Agreement of the World Trade Organization (WTO) on basic telecommunications, the worldwide trend of liberalization, competition, and globalization and the convergence of technology and services. Due to fast development pace in telecommunication technology, telecommunication systems are getting more and more complex with diversified solutions for problem. So in such a multi-operator, multi-vendor environment, standardization plays a vital role in making telecommunication accessible to all.[8]

The telecommunication divestiture or privatization is a long awaited task for most of the government. But the nature of the telecommunication divestiture in developed countries is quite different from the developing countries. One can put the example of South Asian countries where the reform was started in the last decade; and the percentage of telecom privatization in the over all privatization is all most nothing. Where in Britain and many developed countries it was the first priority in the list of privatization. In case of Bangladesh and India this chapter will present step by step change in the privatization reform.

7 Holsman Henrietta (USAID official in charge of privatization, 1991), as cited in *The roots of Privatization: Briefing Notes for Currents debates on Public Sector Issues*, Public Service International, France, March 1997, p. 7.

8 *Country paper on telecommunication standardization in Bangladesh* by Md. Shamsul Alam, Director (Building-Planning) Bangladesh Telegraph and Telephone Board.

5.2 BANGLADESH' EXPERIENCE

After the independence of Bangladesh, it was realized that Bangladesh was the poorest in telecommunication compared to other countries. According to the Second Five-Year Plan Document:

> The telephone density in the country will be only 0.15 per 100 population with a capacity of 1,38,000 exchange line in 1979–80. It was hoped that all 19 district headquarters, 37 sub-divisions will be covered by automatic exchanges and 1 district and 34 sub-divisions will still be served by manual exchanges in 1979–80. In all, 470 thanas, 530 union councils and 100 rural growth centres were being connected either by auto or manual exchanges or PCOs, till the end of 1979-80. There were also 488 Telegraph Offices, 18 STD links, and 16000 lines of PBX/PABXs and 490 Telex/gentex lines up to that year. The density of rural telephone constituting only 8.41 percent of the total telephone capacity of the country is quite poor and is only 0.01 as compared to 1.22 telephone per 100 population in the urban areas. Telegraph services in the country is also highly inadequate and there will be only 488 telegraph offices up to 1997–80 of which about 360 in the rural area. Inland long distance circuits including trunks and telegraph circuits will be increased from 467 in 1972–73 to 1570 in 1979–80. The overseas service has been significantly improved by introduction of satellite communication and by 1979–80 the number of telegraph, telephone and telex circuits will be increased to 18, 29and 19 respectively. To improve the above situation and to cope with the heavy requirement of telephone services by all sectors of the economy, 1000,000 lines of telephone will be installed during the Second Five-Year Plan period. While considering the increase of telephone facilities, the rural areas have been given special consideration for bringing more areas under telephone coverage. Out of 100,000 lines of telephone

80,000 lines will be installed in urban and 22,000 in rural areas. Thus the share of rural telephone will be raised from exiting 8.41 percent to about 13 percent by 1984-85. [9]

The Fourth Five-Year Plan came out with some new figures of telecom development. The document stated:

> In 1973–74, there were 60,000 telephones operating in the country (6,000 in the rural areas and 54,000 in urban areas). The number of telephones increased to 1,20,000 in 1979–80 (10,6000 rural and 1, 09,400 urban) and to 1,82,000 in 1984–85(26,600 rural and 1,55,400 urban). The country's telephone density, which was 0.13 per 100 populations in 1979–80, increased to 0.18 in 1984–85. During 1980–85, 39 manual exchanges were replaced by automatic exchanges in district towns. During the same period the number of automatic exchanges increased from 45 to 84. On the other hand, 144 manual exchanges and 20 auto-exchanges will be installed in upzila towns, and public call offices connected 100 union councils and rural growth centres during the second Plan Period (1980–1985). In order to facilitate international communication, Digital Trunk Exchanges were set up at Dhaka, Cittagong, Kulna and Sylhet. The setting up of a 'A' grade satellite earth station at Betbunia in 1975 to improve the overseas communication wäs a notable development. A type –'B' satellite earth station was also established in 1981 at Talibabad to meet the increased international telecommunication demands.[10]

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[9] The Second Five-Year Plan 1980–85. The Second Five-Year Plan 1980–85 (Draft). Planning Commission, Government of the People's Republic of Bangladesh, Dhaka, p. 54.

[10] *The Fourth Five-Year Plan—1990-95, Revised Draft-II*, Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh, Dhaka, March 1991, p. 13–37.

Table 5.1
Telecom Growth in the Plan Period

Items	*Position in 1977-78*	*Position in 1979-80*	*Target (1980-85)*	*Position in 1984-85*	*Position in 1989-90*	*Target (1990-95)*	*Position in 1994-95*
No. of lines	1,03,000	1,38,000	1,00,000	1,82,000	2,41,190	1,50,000	3,91,190
(a) Automatic	85,000	1,18,000	96,000	1,58,660	2,13,560	1,50,000	3,63,560
(b) Manual	18,000	20,000	4,000	23,340	27,630	....	27,630
URBAN	94,400	1,27,400	80,000	1,55,400	2,08,707	1,00,000	3,08,707
(a) Automatic	85,000	1,18,000	82,000	1,52,960	2,08,007	1,00,000	3,08,007
(b) Manual	9,400	9,400	-2,000	2,440	700	....	700
RURAL	8,600	10,600	20,000	26,600	32,483	50,000	82,483
(a) Automatic	....	....	16,000	5,700	6,800	50,000	56,800
(b) Manual	8,600	10,600	4,000	20,900	25,683		25,683

Source: Data is based on the Second Five Year Plan Draft 1980-85, Plannning Commission, Dhaka, p.xv-62 and The Fourth Five Year Plan-1990-95, Revised Draft-II, Planning Commission, Ministry of Planning Government of The People's Republic of Bangladesh, Dhaka, March1991, p.xiii-47

Table 5.1 presents clear pictures of the slow growth in telecom sector. It is clear that during the period 1977 the number of lines which was around one lakh, was not developed at a very fast rate and it only reached at the level of four lakh. Almost in the 20 years this slow pace of telecom growth presents a very poor telecom environment for Bangladesh. Table 5.1 also presents the picture of urban biasness of the telecom development. In the urban area the number of automatic exchange is more then the number of the manual exchange. But in the rural area the number of the manual exchanges is more than the number of the automatic exchanges. It was clear from the table 5.1 that the target set during the period

1980–85 Bangladesh has performed well, and the achievement was more than the target. This trend has continued during the period 1990–95. The availability of telephone lines in 1995 shows that the country has performed more than the target set during the period. The performance of the telecom sector in the plan period is quite satisfactory, and the achievements are more than the target. But it was also a matter of great concern for the policy makers that the target set in the plan period was quite low, since the Bangladesh had the lowest tele-density in the world. Even after the targeted development the tele-density of Bangladesh is only around four, which happens to be the lowest teledensity in comparison to other countries. In the following section we will present the comparative picture of telecom sector.

Bangladesh was almost at the lowest in terms of telecom-level in the world. In a poor economy, telecom development is always the sideline activity for the state. Investing money in telecom was almost treated like lavishness in a food-defecient economy of Bangladesh. The poor penetration in this area is because of the state's helplessness in investment. The poor allocation of resources and the control over the telecom services created a highly protected telecom environment. In this situation, neither government nor private sector has scope for the heavy investment. This process continued in the history of Bangladesh prior to the New Telecom Policy announced in 1998. Table 5.2 shows the latest position of telecommunication in Bangladesh.

Table 5.2
Bangladesh Telecommunication

Telephones - main lines in use:	500,000 (2000)
Telephones - mobile cellular:	283,000 (2000)
Telephone system	*General Assessment:* Totally inadequate for a modern country *Domestic:* Modernizing; introducing digital systems; trunk systems include VHF and UHF microwave radio relay links, and some fibre-optic cable in cities International: satellite earth stations - 2 Intelsat (Indian Ocean); International radiotelephone communications and landline Service to neighboring countries (2000)
Radio broadcast stations:	AM 12, FM 12, short-wave 2 (1999)
Radios:	6.15 million (1997)
Television broadcast stations:	15 (1999)
Televisions:	770,000 (1997)
Internet country code:	. bd
Internet Service Providers (ISPs):	10 (2000)
Internet users:	30,000 (2000)

Source: www.cia/gov/cia/publication/factbook/geos/bg.html

This table gives the idea that telephone system is totally inadequate in Bangladesh. A study by Camp and Anderson also claimed that one telephone serves 275 people in Bangladesh, equating to one of the lowest teledensity measures worldwide.[11]

5.3 CURRENT TELECOM POLICY IN BANGLADESH

The Ministry of Posts Telecommunications (MOPT) holds the responsibility of sector regulation. A separate Bangladesh Telegraph and Telecommunication Board (BTTB) has also a great importance in Bangladesh. The Government of Bangladesh has already established a regulatory commission named Bangladesh Telecom Regulatory Commission (BTRC), which was a long pending demand by the International Telecom Union and the World Bank. This commission is already functioning now. In Annexure-VI we can see the information about the government regulatory function related to telecommunication.

The government has started a very different type of privatization, through contracting out process. Except in the national long distance landline facility, government has given a clear chance to the private players in the mobile sector. Presently many players are in the mobile field. Bangladesh Rural Telecom Authority (BRTA),Sheba telecom (Pvt.)Limited, Pacific Bangladesh Telephone Ltd. (PBTL), Grameen Phone(GP), Telecom Malaysia International Bangladesh

[11] Camp. L. Jean and Brain L. Anderson, Telecommunication Re-regulation in Bangladesh: A Broad Future Through A Development Initiative, Article received by the researcher through the E-mail jean_camp@harvard.edu, and brain.anderson @post.harverd.edu

(TMIB), and Bangladesh Telecom (Pvt.) Limited (BTL) are the private players in the current practice as is evident from Annexure–VII.

BTTB is a seven-member establishment under the MOPT. Bangladesh T & T Board is a government establishment under the Ministry of Post and Telecommunication (MOPT). The Board is headed by the Chairman with four full time members and three part time members under him. The government of People's Republic of Bangladesh gives their appointment. BTTB telecom service is divided in two parts. Annexure–VIII shows the first part of basic telephone. The second part public telephone service is depicted in Annexure–IX. Annexure–VIII provides a huge pending demand of digital as well analog exchange. It also presents that the number of digital exchange is less then the number of analog exchange. We can easily come to the conclusion that, Bangladesh is still lagging in the digital telephone exchange and the country's basic telephony is still under the analog exchange which is technically poor. Annexure-IX provides the information that BTTB promoted Card Phone booths for the comfortable tele-talks. Card facilitates, STD as well as ISD calls. Card Phone booths are especially helpful for those women and children whose family members are away for the town and country for the job.

GOB of admitted the pending telephone demand. BTTB stated that the growth of telephone exchange capacity in Bangladesh during the period 1995–2000 was on average only 40,000 lines per year. The recorded pending demand of telephone has been increasing at a faster rate than the telephone expansion rate. Annexure-VI shows the trend of telephone growth in Bangladesh from 1994–95 to 1999–00 financial years. Moreover, the pending demand noted here in the Annexure–X is the expressed demand. But, there is no doubt that many people do not express their demand because of known hardship of getting a telephone number. Therefore, the actual demand is really much more than the numbers expressed here. It is observed from Annexure-VI that number of analog exchanges is decreasing year-by-year because of conversion of some of the analog exchanges into digital exchanges and the number of manual Exchanges are becoming obsolete. Though increase in number of digital exchanges is a positive sign, yet the increase is far from meeting the growing demand of the citizens as is evident from Annexure–X.

Because of resource and other constraints BTTB has taken up some programmes in phases to install new digital telephone exchanges both for expansion of exchange capacity and to replace some of the old analog exchanges. Annexure–XI shows some programmes, which are already undertaken by BTTB.

MOPT has taken interest to link all 64 districts with the Internet facilities. See the detailed concept and strategy to connect with the outside world in Annexure–XII.

On the basis of this information we can say that the telecom practices in Bangladesh is progressive in the current years. In a very short span of time, Bangladesh has shifted from the total state control to the liberal private environment. The telecom has developed from the traditional fixed line telephone to modern cellular telephone.

It is right that Bangladesh has started private participation in telecom sector after a long time. But now Government is very keen to privatize this sector. Government's national telecom policy states:

> A very low level of penetration, limited capability to meet the growing demand, low level of investment and old outdated systems and technologies necessitating reactive remedial measures, has characterized the telecommunications sector in Bangladesh. In order to develop a national sound telecommunication infrastructure to support the economy and welfare of the country by providing telecommunication facilities on demand, assuring satisfactory quality of service and ensuring value to the customers, a sound National Telecommunication Policy is essential. This is also imperative to ensure the cost based pricing of the present as well as the future services to satisfy the need of specialized groups in particular and the public in general. With this in view, this new policy will ensure the orderly development of the telecommunications sector through the provision of services in all the areas of the country, to satisfy the unserviced demand for telecommunications and to provide equitable opportunity and competition amongst the service providers.[12]

National Telecommunication Policy 1998 (which is the latest policy) indicates a new climate for telecom sector in Bangladesh. It was also said in the policy that in order to develop a national sound telecommunication infrastructure to support the economy and welfare of the country by providing telecommunication facilities on demand, assuring satisfactory quality of service and ensuring value

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[12] National Telecommunication Policy 1998, Government of the People's Republic of Bangladesh of Post and Telecommunication Dhaka, March 19, as on *http://www.trc.org.bd/main1.htm*

to the customers, a sound national telecommunication policy is essential. This is also imperative to ensure the cost based pricing of the present as well as the future services to satisfy the need of specialized groups in particular and the public in general. With this in view, this new policy will ensure the orderly development of the telecommunications sector through the provision of services in all the areas of the country, to satisfy the unserviced demand for telecommunications and to provide equitable opportunity and competition amongst the service providers.[13] Due to the government's contracting out programmes in telecom sector the Internet growth is also very much impressive. In Bangladesh this view was also expressed in the telecom policy. The policy stated:

> The strategic vision of the Government is to facilitate Universal Telephone Service throughout the country and where there is a demand, all those value added services such as cellular mobile telephone paging, data services, access to Internet (including electronic mail), Voice mail and video conferencing—all at an affordable cost without compromising performance. To achieve the vision, government's role as a service provider will diminish as the private sector's role increases. The government's objective will be to create a new policy environment to support this new scenario. Its ability to create policy, regulate and facilitate will be strengthened through a new Telecommunications Act, which reflects the Government's new policies, objectives and strategies and the establishment of new institutions including a Telecommunication Regulatory Commission (TRC), which will become the guardian of the Act and fulfill its regulatory functions.[14]

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[13] Ibid.

[14] Ibid.

The idea to establish an independent regulatory commission is now in practice. New telecom policy also assured to solve the past mistake of low level of investment and also the investment restrictions for outsiders. In 1998, government stated:

> The policy document, upholding the commitment of the government to resolve the prevailing shortcomings, outlines the objectives, strategies and other related aspects of telecommunications. The policy is formulated to ensure the orderly and rapid growth of telecommunications services, both in quality and quantity and the use of telecommunications technology in order to support the socio-economic development, in line with the national aspirations.[15]

The objectives of the National Telecommunications Policy can be summarized keeping in view a few specific points. It was said that '*digitalization*' would facilitate a quicker and easier interface mechanism for all private and public operators.[16] Success of telecom divestiture depends on the '*investment*'.[17] Without foreign investment it is difficult for Bangladesh to achieve any fast reaching goal in telecom sector. We can summarize some specific points of this telecom policy as follows:

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[15] Ibid.

[16] It was stated in policy to replace all analogue switching equipment by the year 2002 and analog transmission equipment by 2005. It was hoped that this would improve existing and potential telecommunications service for both basic and value added services.

[17] By opening the telecommunications sector to competition and consolidating an independent regulatory board reporting directly to the Government, private sector investment, both domestic and foreign, is encouraged. This tenet will improve access to and quality of both basic and value-added services, which historically, have been monopolistic. Investment is encouraged through the Build Operate Own (BOO) and Build Operate Transfer (BOT).

(i) Foreign investors are encouraged to demonstrate their commitment to Bangladesh by forming joint ventures with local companies and within the telecommunications sector.

(ii) Government will consider equity participation of up to 100% of the overall shareholdings of the telecommunications operating company.

(iii) The government will make all endeavors to remove all procedural and other impediments for quick implementation of the projects including investment proposals from foreign investors in the telecom sector to meet the growing and unmet demands of telephones in the country.

(iv) For quick implementation of the projects, the government reserves the right to take decisions as it deems appropriate.

(v) The participation of the public and private sectors, intends to meet its goals and objectives through a combination of policy - related technical and financial strategies.

(vi) It will ensure that the present inadequate infrastructure is alleviated through the formulation of competition and performance standards.

(vii) While supporting the private sector as the engine of growth, it will continue to support BTTB in the short to medium term as the Government assumes its just role as policy maker, regulator and facilitator.

(viii) The Government's objective is to see an orderly transition from a monopolistic to a multi-operator environment.

The government is trying for a liberal telecom environment. Policy is acknowledging the freedom of the information. The '*general guide-*

lines' embodied in this policy document emphasizes faster development of telecommunications network coupled with improved quality of service in line with the national development. The national policy of telecom also said that it would act as a catalyst towards the growth and development of telecommunications in the country with a view to producing a modern, balanced and dynamic society. The policy measures are designed to achieve a range of benefits, which include but not necessarily limited to the tasks of increasing the number of telephones in a systematic and comprehensive manner. Proper environment will be created within the country, as a national obligation, to promote research and development activities in the telecommunication technology and services, to develop telecommunications training courses in new systems and services and to ensure appropriate human resources development for the efficient conduct of telecommunications activities. In order to fulfill this obligation, a National Institute of Research and Development (NIRD) in Telecommunications will be established. Efforts must be made to establish a National Institute for Human Resource Development in Telecommunications (NIHRDT) in the country by upgrading the existing Telecommunication Staff College of BTTB at Gazipur. The already functioning two large factories namely Telephone Shilpha Sangstha (TSS), at Tongi and Bangladesh Cable Shilpha (BCS) Ltd. at Khulna, will be vital launching pads to embark upon large-scale involvement in the manufacturing field. The government will also consider the privatization of TSS and BCS. There are a number of Acts which govern and regulate various telecommunications activities like the telecommunications between two points, audio broadcasting of radio messages or programmes for the specified group of people or the public in general and telecasting of simultaneous audio-visual programmes. The Telegraph Act 1885, The Wireless Act 1933, The Radio Broadcasting Act 1975 and 1992 and The Television Broadcasting Act 1965 which regulate these activities may be considered for a combined Telecommunication Act applicable for all the allied services of telecommunications. While acknowledging the freedom of information as an important element of the modern world, the new Act may include restrictions to communications and broadcasts, which are regarded as incompatible to the national security and harmful to the society.

5.4 INDIAN EXPERIENCE

Telecommunication services were introduced in India soon after invention of telegraph and telephone. First telegraph line between Calcutta and Diamond Harbour was opened for traffic in 1851. By March 1884, telegraph messages could be sent from Agra to Calcutta. By 1900, telegraph and telephone had started serving Indian Railways. As in case of telegraph, telephone service was also introduced in Calcutta in 1881–82, barely six years after the invention of telephone. First automatic exchange was commissioned in Shimla, 1913–14 with a capacity of 700 lines.[18] The Department of Telecommunications (DOT) has improved significantly since independence—both in quality and quantity. The number of exchanges, which was around 300, has gone up to 27,909 by March

[18] *India2001* pp.581–82, and *India, 2003* (Hindi edition) p. 680, Publication Division Ministry of Information and Broadcasting, New Delhi.

2000, which grew to 35,023 in 2002. Initially most of the exchanges were either magneto type or manual type, which subsequently were upgraded into automatic electro-mechanical type. In the last one and a half decades, introducing digital electronic exchange in the network on a large scale has brought about a significant qualitative improvement. Today 100 % telephone exchanges in the country are of electronic type.[19] India has one of the largest telecom networks in Asia comprising 27,909 telephone exchanges, with a total equipped capacity of 32.77 million lines and 26.51 million working telephones. The long distance transmission network has about 1,69,000 route km of radio system, and about 1,71,300 route km of optical fibre systems. Fully automatic International Subscriber Dialing (ISD) service is available to almost all the countries .The total number of stations connected to National Subscriber Dialing (NSD) is 21,570. In the field of international communication, tremendous progress was made by the use of satellite communication and submarine links. The voice and non-voice telecom services, which include data transmission, facsimile, mobile radio, radio paging and leased line services, cater to a variety of needs of both residential and business customers. A dedicated packed switched Public Data Network with international access for computer communication services is also made available. More that 3.74 lakh of the total 6,00,000 villages in the country have been covered with telephone facility.[20] In Delhi and

[19] Ibid.

[20] Ibid.

Mumbai, Mahanagar Telephone Nigam Limited (MTNL)[21] has a large number of subscribers even after the entry of multiple players in the telecom market.

We can see the growth of telephone lines in last few years by MTNL in Fig 5.1. below.

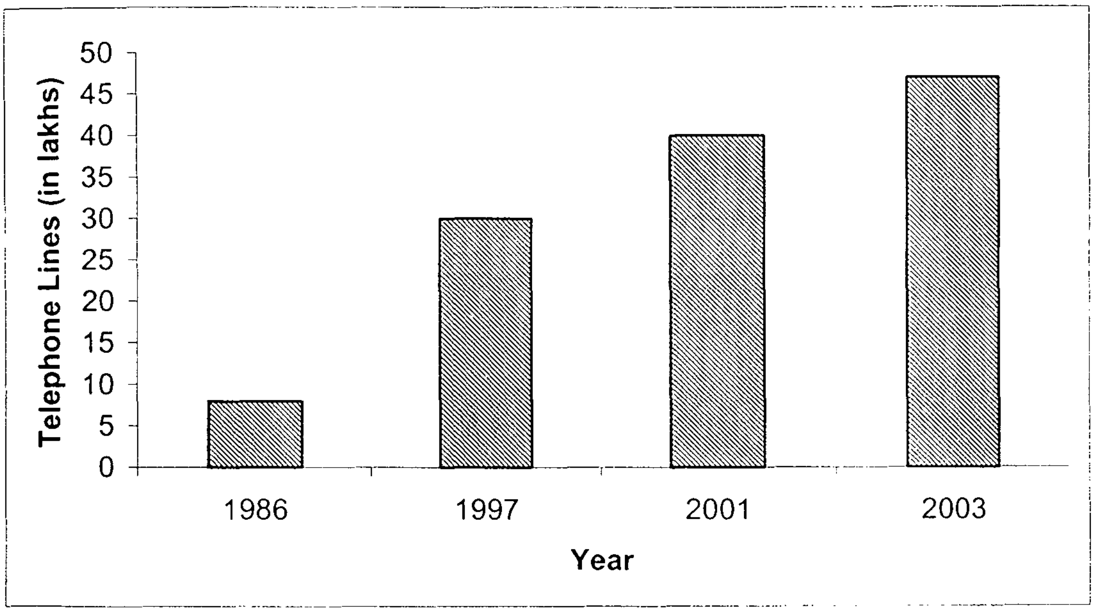

Fig. 5.1 Growth of Telephone Lines

5.5 CURRENT TELECOM POLICIES IN INDIA

The Economic Policy of 1991 has started a new wave of reforms in various sector. Telecom reform is also one of them. The telecom policy 1994, which came just after the economic reform started in 1991, stated that telecommunication services of world- class quality were

[21] 'MTNL as a company, over last sixteen years, grew rapidly by modernising the network through induction of the state-of-the-art technologies and a customer friendly approach'as declared by the MTNL.

necessary for the success of this policy. It was, therefore necessary to give the highest priority to the development of telecom services in the country.[22]

Latest telecom policy, which came in 1999, was some steps forward to the previous policy of 1994 which created a competitive atmosphere in the telecom sector. The objectives of the NTP 1999 are as to:

a. Access to telecommunications is of utmost importance for achievement of the country's social and economic goals. Availability of affordable and effective communications for the citizens is at the core of the vision and goal of the telecom policy,

b. Strive to provide a balance between the provision of universal service to all uncovered areas, including the rural areas, and the provision of high level services capable of meeting the needs of the country's economy;

c. Encourage development of telecommunication facilities in remote, hilly and tribal areas of the country;

d. Create a modern and efficient telecommunications infrastructure taking into account the convergence of IT, media, telecom and consumer electronics and thereby propel India into becoming an IT superpower;

[22] National Telecom Policy 1994, GOI, New Delhi, cited on www.trai.gov.in

e. Convert Public Call Office (PCOs), wherever justified, into Public Teleinfo centres having multimedia capability like ISDN services, remote database access, government and community information systems etc;

f. Transform in a time bound manner, the telecommunications sector to a greater competitive environment in both urban and rural areas providing equal opportunities and level playing field for all players;

g. Strengthen research and development efforts in the country and provide an impetus to build world class manufacturing capabilities;

h. Achieve efficiency and transparency in spectrum management;

i. Protect defence and security interests of the country;

j. Enable Indian telecom companies to become truly global players;

k. Make available telephone on demand by the year 2002 and sustain it thereafter so as to achieve a teledensity of 7 by the year 2005 and 15 by the year 2010;

l. Encourage development of telecom in rural areas making it more affordable by suitable tariff structure and making rural communication mandatory for all fixed service providers;

m. Increase rural teledensity from the current level of 0.4 to 4 by the year 2010 and provide reliable transmission media in all rural areas;

n. Achieve telecom coverage of all villages in the country and provide reliable media to all exchanges by the year 2002;

o. Provide Internet access to all district headquarters by the year 2000;

p. Provide high speed data and multimedia capability using technologies including ISDN to all towns with a population greater than 2 lakh by the year 2002.

Telecom achievement in the post-reform period is quite satisfactory in India. India is close to the teledensity targeted in the telecom policy in 1999. All district headquarters have been connected with the Internet facility. The target to provide high-speed data multimedia capability for the town more than 2-lakh population has been also achieved by the government. Rural teledensity is also close to 3% at the end of 2003. However, India still has to fulfill many other targets in the coming years. The issue of transparency and spectrum management are still to be properly addressed by the government.

5.6 COMPARISON BETWEEN INDIA AND BANGLADESH

A study by the World Bank stated that Bangladesh lacks in terms of teledensity and investment. This sector is in the grip of a mismanaged state monopoly.[23] In Bangladesh subscribers have to pay excessive amount of money on fixed as well as mobile phone. Indian subscribers have more advantages on fixed and cellular lines as is Table 5.3. below.

[23] *Bangladesh 2020*, op. cit. 2.

Table 5.3

Comparative Telecom Picture between India and Bangladesh

Issues	*India*	*Bangladesh*
Waiting time for a landline connection	One year in rural area /One week in Metro	Four-Five years in every area of Bangladesh
Installation rate for a new fixed line connection	Around Rs. 2,000	Around Tk 30,000. without bribe (the expected bribe is around 5000 taka for installation of a landline)
Tariff rate landline to landline	80 paise per minute	8 Tk per minute
Landline to Cellular (local)	Less then Rs 3 per minute nationwide	More then Tk 8 nationwide in both cases
Landline to landline—local Cellular to cellular (STD)	Rs 2.40 for less then 500 km per minute Rs. 4.80 for more then 500 km	2-3 Tk per minute for local 5-15 Tk per minute for long distance

Source: Data presented is based on the field work done by the researcher in March 2003, Dhaka.

The tele-density of both countries is presented in table below.

Table 5.4

Teledensity – Comparison: Bangladesh and India (1980-90)

Telephone mainlines (per 1,000 people)											
Country	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Bangladesh	-	-	1.3	1.2	1.2	1.5	1.6	1.7	1.7	1.8	2.2
India	3.1	3.2	3.4	3.6	3.8	4.1	4.4	4.7	5.1	5.5	5.9

Source: World Development Indicator (WDI), The World Bank, 2003.

During the period 1980–90, teledensity in Bangladesh as well as India grew less than two-fold. But this trend has changed during the period 1991–2001. Table 5.5 below shows that the teledensity in Bangladesh has also changed two-fold in this period, but in India it has increased more than five-fold. The new telecom policy introduced in Bangladesh in 1998 has not succeeded yet to achieve any fast teledensity growth. But in India the new telecom policy introduced in 1994 and 1999 respectively accelerated the tele-density growth.

Table 5.5

Teledensity -Comparison: Bangladesh and India (1991-2001)

Telephone mainlines (per 1,000 people)											
Country	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Bangladesh	2.2	2.0	2.1	2.2	2.4	2.6	3.0	3.3	3.4	3.6	4.3
India	6.7	7.7	8.9	10.6	12.9	15.4	18.6	21.9	26.5	32.0	37.5

Source: World Development Indicator, The World Bank, 2003.

The consolidated trend of telecom growth has presented in Fig 5.2.

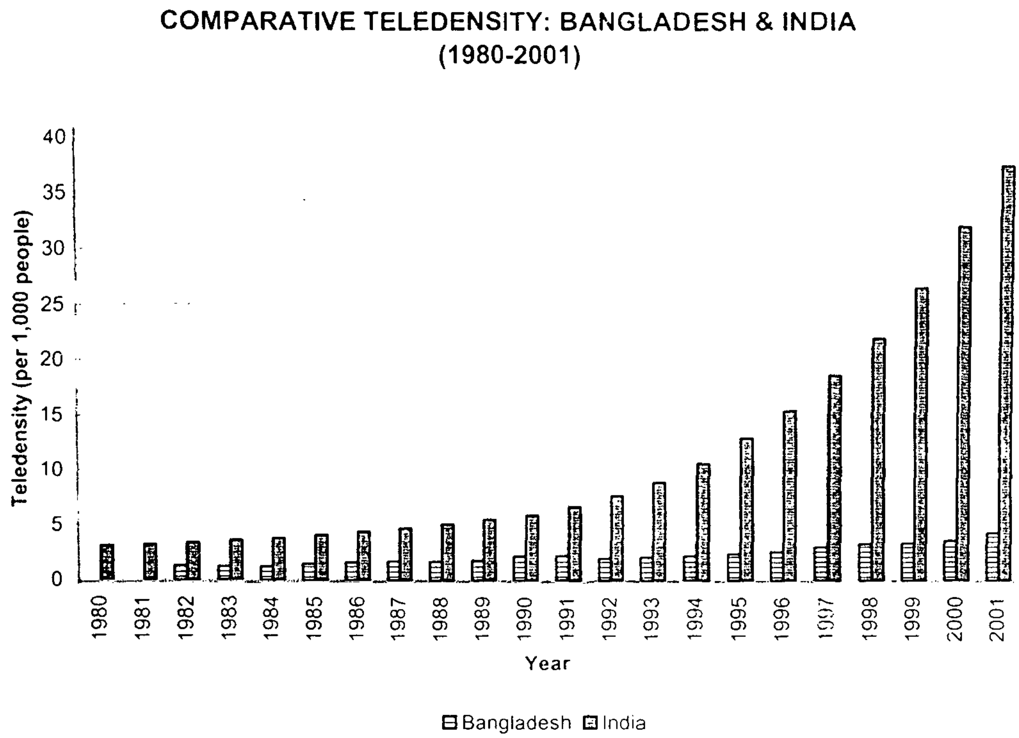

Fig. 5.2

Figure 5.2 did not present any sharp vertical growth in the teledensity in Bangladesh. Where the growth in India is quite vertical after 1991. Which is basically the post reform period.

The cross-country observation in some South Asian countries also shows how Bangladesh is lacking in terms of getting private investment in comparison to other countries, whereas India holds a very impressive position.

Table 5.6

Cross-country Comparison of Telecom-Sector

Name of the country	*Private investment during 1990-99 US $*
India	9270
SriLanka	949
Pakistan	690
Bangladesh	588

Source: World Telecommunication Development Report, International Telecommunication Union, Geneva.

It is clear that in terms of private investment, Bangladesh is at the bottom. If one looks at the case of telecom reform in India, one would get a clearer picture. In India, due to the huge investment in the mobile sector by Sunil Mittal, Dhiru Bhai Ambani, Tata and many others, a highly competitive environment prevails. Subscribers with different operators have been presented in Table 8 below.

Table 5.7

Subscribers with different operators in India as on 15 April, 2003

Operator	*Subscriber Base(in lakh)*
Bharti	30.17
BSNL	22.56
Hutch	21.64
Idea	12.80
BPL	11.31

Source: *The Economic Times*, 15 April, 2003, New Delhi

The number of mobile/cellular subscribers has a fast increasing trend. India is the single country where 20 million subscribers are opting the mobile/cellular options every month. The cellular /mobile call rate has dropped from Rs. 16 to Rs.1.90 a minute on outgoing calls with incoming facility becoming totally free. Due to the heavy cut-throat competition, subscribers have started availing benefits, especially in mobile sector. In landline telephone also the new telecom environment has also become competitive due to the entry of many new players. However these players are restricted to the cities, whereas in rural areas Government of India has still a great challenge in terms of accelerating tele-density. It is clear that India is a country where entrepreneurs' base is quite strong. In the case of reforms consumers have benefited substantially. But in Bangladesh, the World Bank stated that BTTB's service quality is poor by international standards and has declined sharply since 1991.The national average is about 50 complaints per 100 lines per month. There are considerable delays in repairing faults, with only about 50% being repaired by the next working day.[24] There are some complaints against BSNL also. In India the fault per 100 lines is 18,which is more than Pakistan and Indonesia, 9 and 3 respectively. Despite such poor performance, the revenue per telephone of BTTB is surprisingly higher than that of the neighbouring countries.

The comparative picture of entrepreneurs' presence is quite extreme between Bangladesh and India. In Bangladesh, because of the absence of a strong class of entrepreneurs, it is difficult for the government to fully depend on the private sector. Mobile companies

[24] *Bangladesh: Competition and Regulation in Telecommunications*, The World Bank, 30 July, 1996 p. 15.

like Grameen Phone, Aktel and Sheba Telecom are international entrepreneurs. In the coming years if government wants to fully privatize BTTB, it does not have any other way but to involve international parties. This is different in India, where a large number of internal players are in the market.

5.7 COMPETITIVE AND REGULATORY FRAMEWORK IN BANGLADESH AND INDIA

Government of Bangladesh has committed to continue liberalization of the telecommunications sector.[25] Private operators will be allowed to provide 'basic services'.[26] They are also directed to maintain, operate, and provide infrastructure by 'own effort'.[27] Bangladesh has been unsuccessful in attracting foreign investment to network upgrades and thus has had to finance the build out of 67,000 digital

[25] The approach is to encourage a sound and orderly competition between the private and public sector as well as among the various private sector operators themselves to achieve efficient and quality service concentrating initially on the value-added services. However, the government retains the sole authority to determine the number of competitors that are economically viable for certain services. The strategy is to provide equal and rational opportunities to all competitors.

[26] The private operating entities will be allowed to provide basic telecommunications and long distance transmission facilities in accordance with section and the value-added services where appropriate under license to be issued by the Regulatory Commission.

[27] In order to provide efficient and satisfactory services, the private operators will manage and operate telecommunications services under their control in a completely professional manner in accordance with the methods and procedures in force in the sector and in observance of the principles of economy. They shall engage sufficiently qualified and adequate personnel for providing the services as per the standards set by the commission. The private operators are required to keep abreast of trends in demand, establish or expand the services, upgrade the infrastructures and introduce the new ones on the basis of the most advantageous technical and economic approach.

fixed lines itself, through the sale of telecommunication bonds. The organization also hopes that similar bonds will raise enough capital to replace old analog exchanges and expand the long-distance links.[28] This may be, in part, due to the lack of efficacy of BTTB investment. In 1999, $110.7 million was spent in telecommunications investment, and 29,500 new telephone lines were added.[29] In contrast, approximately 110 cellular sites could have been placed for the same cost, covering more territory and serving more people. Consider tele-density in the perspective of Bangladesh between 1998 and 1999 during which the number of competitive cellular providers grew from 57,000 to 105,000 subscribers.[30] Government also made some clear statement about 'tariff structure'.[31] The private operators

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[28] V. Shetty, Hayes, D., and Warwick, M. Creating Competition. *Communications International* 24(12), 1997 cited on http:www.isoc.org

[29] International Telecommunications Union, Telecommunications Development Bureau. *World Telecommunication Development Conference* (WTDC-98), Valletta, Malta, March 1998, cited on http.www.isoc.org.

[30] Budde, P.B, *Bangladesh: Key Statistical Indicators and Overview.* Melbourne, Australia: Paul Budde. Communications, 1999.

[31] The tariff structure will apply equally to public and private operators and will be set by the Telecommunication Regulatory Commission with prior approval of the Government. It will take into account the interests of various parties, benefit to the users and reasonable returns to the operators based on the principle of equity and the market factors and will set the maximum rates and tariffs for all the services on the principle of fair-play. Where data is available, the tariffs will, in principle, be cost-based, subject to revisions from time-to-time in relation to the changes in the cost of equipment, development in technology, increase in the use of services and socio-economic considerations such as affordability of users, consumer price index, extent of rural service requirement and any other requirements for all telecommunications services as may be notified by the Government or the commission from time to time. The costs of the services are also to be reasonable and comparable with those charged in the neighboring countries and international market. However, the operators may make submissions to the Commission who will notify the tariff revisions, if any, after obtaining approval from the government. The Government may also de-regulate tariffs for any service to allow the operators to set tariffs by themselves.

will prepare annual and long-term investment plans and operating accounts, define and propose tariff and service structures, define and initiate rates for new services and changes in rates for existing ones, for approval of the Government or the Commission. [32]

In the new telecom environment, many private firms are taking a large share in India and Bangladesh. In Bangladesh the 'Grameen Telecom',[33] a major telecom success in the rural area is providing many facilities. 'Village Phone' (VP)[34] is a unique idea in this regard, which provides modern telecommunication services to the poor people in Bangladesh. A Grameen Bank member obtains ownership

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[32] *National Telecommunication Policy*, op. cit. No. 14.

[33] Grameen Telecom Company (GTC) is a company dedicated towards extending the benefits of the information revolution amongst the rural people of Bangladesh. Currently, GTC provides the GSM 900 cellular mobile phones to the villagers. Corporate vision of GTC is to provide telecommunication services to the 100-million rural inhabitants in the 68,000 villages in Bangladesh. Grameen Telecom is a non-profit company set up at the initiative of Professor Muhammad Yunus. It holds 35% share of GrameenPhone Ltd., the company which was awarded a nationwide license for GSM 900 cellular mobile phone services. The Company is entrusted with the responsibility of providing telecommunication services in the rural areas in Bangladesh and also acts as a sales agent for mobile phones for individual urban subscribers. The basic objectives are to ensure universal telecommunication access for the villagers and provide other value added services. Grameen Bank plays a vital role in implementing and expanding the Village Phone programme. It provides necessary organizational and infra-structural support to Grameen Telecom towards selecting the Village phone operators from amongst its members and also by collecting the phone bills. GB happens to be the first 'point of contact' towards problem resolution related to the "Village Phone Programme" by acting as the conduit between the village phone operators and Grameen Telecom, on as and when required basis. Based on this available infra-structural support, Grameen Telecom plans to establish one unit Office to support and service 300 Village phones.

[34] The "Village Phone" concept was developed by combining Grameen Bank's experience with the village based micro-enterprises and the latest digital wireless technology and the well tested/ proven idea of PCOs and the privately operated phone centres.

of the phone under the lease-financing programme of the bank and provides the services to the people in the adjoining area, covering both outgoing and incoming calls. Grameen Bank collects the VP bills along with its other dues. It is hoped that very soon, VP will attain the position of being the largest wireless pay phone project in the world. Each village phone remains under the custody of a village pay phone operator, who is responsible for extending the services to the customers for both incoming and outgoing calls, collection of call charges according to prescribed rates, and proper maintenance of the telephone sets. The operator's income is derived from the difference between the airtime charges paid by customers and the billed amount required to be paid by the VP operator along with a flat charge for each incoming call. The argument, which is given in favour of the objectives by the Grameen Bank, is to provide easy access to telephone services, all over rural Bangladesh to initiate a new income generating option for the villagers to gradually bring the full potential of the information revolution to their doorsteps and thereby introduce telecommunication as a new weapon against poverty. In developing countries billing is a difficult exercise. In a country like Bangladesh if operators are charging a higher amount of money then it is difficult for the poor people to pay that amount. But if they are charging very low amount then it is also difficult for the operator. It was claimed by the Grameen Telecom Company (GTC) that the billing process of the GTC favuors the rural customers.[35]

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[35] Grameen Telecom purchases from Grameen Phone, airtime in bulk, for all village phones in operation, at a specially discounted rate, which has been negotiated between the two organizations. GP prepares the monthly bill and sends these to GTC for payment. GTC remakes the individual bills (in Bangla, the local language) and sends these to the corresponding branch with a summary of all bills due from a particular branch. The concerned branch then pays the bill to Grameen Telecom

The World Bank study stated that rate structures in Bangladesh as well as in most developing countries, including India, have involved cross-subsidization of local service by international and long-distance segments. As such, rates in the latter segments greatly impede Bangladesh's participation in the global market place. Such cross-subsidization must go. As long-distance tariffs fall, local rates must rise to facilitate private sector participation and hence to promote competition and investment in the local loop. Fortunately, strong private sector competition can keep all rates low. To maintain this momentum it is imperative to regulate these steps. New entrants in the market need access to the network, which usually turns out to be more of a pricing than a physical problem. In practice, rough-and-ready norms for revenue sharing between different components of the network can be adopted.[36] Thus, Bangladesh is offering a clearly different path for universal service by concentrating competition in the wireless in local loop (WLL). The success of this effort is in no small part a function of the success of Grameen Phone. What the early data available suggests that the strategy taken in Bangladesh is functioning well for that nation. This argues against the wholesale deregulation according to a single model advocated by the WTO and for a more locally sensitive and detailed understanding of the effects

over the next six-weeks period. Grameen Bank in turn collects the bills from VP Operators. The basic package of Village Phone contains Nokia 5110 transceiver, battery, fast charger, signboard, user guide in Bangla and price list for different destinations (both local and international. The basic package costs TK 12000(US$ 220). Grameen Bank branch pays the bill to GTC while the VP Operator pay to GB in weekly installments. For usage charge, VP operators pay minimum monthly bill of Taka 154 which includes monthly line rent, VAT and Service Charge along with TK 100 towards annual government license/royalty fee. Actual airtime charges are then added over and above.

[36] *Bangladesh 2020*, op. cit. No. 2.

of telecommunications as a tool for development.[37] On this ongoing telecom reform, a Harvard University paper by Jean and Anderson stated.

> Telecommunications in Bangladesh focuses on connecting the country to it more effectively. Telecommunications reform in Bangladesh has followed the neo-liberal paradigm to increase internal connectivity, while the World Bank has invested in satellite links to increase Bangladesh's international connectivity. Bangladesh has more competition in the local loop than in domestic long-distance. While it is not unusual for states to maintain the highly profitable international long-distance market, the domestic long-distance market should be privatized first or simultaneously with the local loop according to neoliberal development orthodoxy. Bangladesh is one of three noncommunist nations (Bangladesh, Sri Lanka, and India) where the local loop is more competitive than domestic long-distance. The results have been mixed. The regulatory changes include the opening of the wireless arena, resulting in new possibilities for relatively affordable infrastructure expansion.[38]

After the establishment of the Telecom Regulatory Commission, it is quite imperative to make more flexible policy for this sector. FBCCI stated that the government of Bangladesh is encouraging private participation to set up card-phone system and public call centers to take telecom to the grassroots.[39] In a discussion with the chairman of BTRC, it is revealed that the commission has recently advised the government to privatize and to formulate a policy towards making the

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[37] *http://www.isoc.org/inet*/2000/cdproceedings/8c/html.

[38] Ibid.

[39] Privatization of State Owned Utilities, *FBCCI Final Report*, Nov.2000, Submitted by Centre for Development Research, Bangladesh (CDRB), Dhaka, p. 9.

market more competitive as soon as possible.[40] The chairman also said, 'country urgently needs a new telecom policy in this regard'.[41] An immediate action plan should, therefore, be initiated to formulate a National Telecommunications Policy, to corporate and then privatize BTTB so that it gains the capacity as a progressive organization to meet the immediate challenges in this sector and, as competition will compel, to meet the long-term challenges of a fast-growing Bangladesh.[42] The urgent need for cost realization can improve the future of telecom sector in Bangladesh. The World Bank also stated in the latest study:

> Whatever course is chosen, the decision is an urgent one. Without bringing new resources into play, Bangladesh will fall even further behind in adapting such new technologies as digital systems and fibre-optic cables for adequate domestic and international communications. Unfortunately, Bangladesh has already been bypassed by two important links that will significantly reduce costs and improve the quality of international telephone traffic: (a) the $2 billion 2x5 Gbps Fiberoptic Line Around the Globe (FLAG), commissioned in September 1997, and (b) $1.2 billion 2x10 Gbps SeaMeWe 3, due for commissioning in December 1998. This relative isolation could turn out to be a serious setback for future international communication from Bangladesh, affecting export capabilities when India and other competing countries are on the link. On average, it could cost our exporters more and take longer to connect potential buyers worldwide.[43]

[40] An Interview with BTRC chairman, Syed Murghub Murshed, 15 March, 2003, Dhaka.

[41] Ibid.

[42] *Bangladesh 2020*, op. cit. No.2.

[43] Ibid.

Board of Investment, Bangladesh also admitted the process of necessary policy formulation to completely deregulate fixed line has been started and targeted to be implemented by mid 2003. Permission for Voice Over Internet Protocol (VOIP) would be facilitated by early 2003. Such market–oriented move of telecom sector would enhance the telecommunication service of the country to a desired level.[44] Grameen Telecom is now negotiating to use the ideal capacity of the fibre-optic telecommunication links of Bangladesh Railways to reduce the costs of their services.[45]

The Indian experience is different from Bangladesh. The tele-density in India is five times greater than Bangladesh. However the recent trends show that Indian telecom experiences are not healthy in rural areas in comparison to urban area. Annexure–XIII shows that the planned target of telephone line by Bharat Sanchar Nigam Limited (BSNL) in village area has not been achieved. Himachal Pradesh, Orrisa, Uttaranchal, Uttar Pradesh (East) West Bengal has shown a satisfactory performance, but the other states are still lagging behind in the target achievements. Annexure–XIV shows that the teledensity growth in two metros (Mumbai and Delhi where MTNL is working) has been achieved successfully in the fixed line connections. During the period 1998–2002 the growth in the number

[44] *Bangladesh Investment Handbook*, Board of Investment, Nov. 2002, Prime Minister's Office, Dhaka, p. 27.

[45] Rahman Sobhan, *Privatization in Bangladesh: An Agenda in Search of A Policy*, Centre for Policy Dialogue, Dhaka, 1997, p. 18.

of exchanges has also increased 40 times. The growth in equipped capacity has increased seven times. Growth in tele-density in Mumbai was more than 18 % and in Delhi it was more than 15 %, where the average national growth in tele-dencsity was 3.5 % in 2002.The connectivity with the outside world has also increased manifold. In 1998 tele-connectivity of two metros was only with 11 countries but it has increased from 11 to 239 in 2002. Analysis of both Annexures XIII and XIV indicates that in metros, India is much ahead than its targets but in rural India it is far from the targets. The telecom growth in India has an urban bias, where at every level the development is faster than the rural areas. We will find the causes of the urban bias in the following discussion. In Annexure–XV, we can see the basic service providers, whereas in Annexure–XVI, we can see the cellular mobile service provider registered with TRAI. Annexure–XVI provides a general idea of the TRAI intervention in distribution of the service provider on the basis of the different state. This also shows participation of the different players' interest in the Indian telecom market and also a very diversified market, which has certain hopes for competition. In Annexure–XVII, we can see the single service provider in international long distance.

There are some bitter experiences in India's telecom reform. In the beginning of the telecom reform two decisions had created the chaos. First the decision of the government to ex-post declare a cap of three circles per bidder after a single firm, Hindustan Futuristic Company Limited (HFCL), had won nine out of 20 circles and second, the decision of the government to reject the highest bid on ten telecom circles on the grounds that they were below the reserve price. These two decisions led to multiple round of bidding.[46] This had delayed the process of reform and it has also questioned the credibility of the government, which has to restrict such type of monopolistic practice. It was the defeat of the sole purpose of reform. But India has taken some lessons from the past experiences. The Telecom Regulatory Authority Act is now looking into the various disputes. Act provides a wide range of understanding about the Indian telecom regulatory body, TRAI. This covers power and function, dispute settlement, finance, account, audit and many other issues like the security of the nation and judicial link of this act by TRAI. TRAI has settled many disputes in the past few years. In 1997, the government has given many judgments regarding the telecom disputes. We can see these 'judgment order'[47]. Government has also amended the TRAI act 1997 and the new Act also came out in public in 2000.[48]

However there are still number of inequities between the State Owned Telecom Services (SOTS) and private companies. TRAI is still unable to solve these inequities. T.H. Choudary in his recent study

[46] Twenty circles are Andhra Pradesh, Delhi, Gujarat, Maharastra, Kerala, West Bengal, Punjab, Uttar Pradesh, Karnatka, Tamil Nadu, Haryana, Orissa, Rajasthan, Bihar, Madhya Pradesh, Uttear Pradesh (E), North East States, Assam, Andaman and Nicobar, Himachal Pradesh. Balu .P.G and Das Nandita, *Privatization and Auction, in India Development Report 1999-00*, ed. Kirit S. Parikh, OxfordUniversity Press, 1999, p. 274.

[47] The TRAI act and these judgments are available at *http://www.trai.net.in*

[48] Ibid.

stated that TRAI had recommended the unification of only the totally fixed (for which there is hardly any demand), limited mobility and full mobility services. Its exclusion of the NLD, and ISD from the unified license strengthened the suspicion that the TRAI's exercise was only to bail a particular company, which was irregularly but very ingeniously providing full mobility services under very favourable license conditions. This type of behaviour further eroded the credibility of the TRAI.[49] There should be some attempt to protect the subscribers in the war between SOTS and private operators. In view of the present problem of the subscribers, TRAI has recently came out with a notification to protect the interest of the subscribers .We can see the new tariff amendment notification in Annexure–XVIII. Annexure– XVIII provides the steps taken by the TRAI in January 2004. This notification is strict for service providers that have to report the tariff plan at least five days prior to its launch in the market. This also states to avoid undue pressure on regulatory resources. Complains by the pre-paid subscribers will also be reviewed by TRAI. The activities of TRAI in last few years presents a clear picture that TRAI is taking many steps in the highly competitive telecom market. We can see the list of the regulatory decisions in Annexure– XIX. In last few years TRAI has covered many areas like, interconnection, transection of the business of different service providers, service quality, tariff etc. But the establishment of a suitable legal and regulatory framework may not be enough to attract private investment and operators. Adequate facilities to interconnect

[49] T.H. Chowdary, Rewarding Inefficient Icumbent, Economic and Political Weekly, Nov. 8, 2003, p. 4736.

the various networks would also be needed. More or less India is now trying to provide such type of facilities but Bangladesh is still away from this approach. As Vittal maintions, the main things which drive this sector are technology, political will, regulatory activism, and market dynamics.[50] The case of Bangladesh is very weak at the level of technology, regulatory activism, political will and market dynamics. Continuous change in telecom technology is a great challenge for the policy makers. At the level of political will, regulatory activism and market dynamics, India is far ahead of Bangladesh.

5.8 SOCIAL IMPACT OF RURAL TELE-REFORM: COMPRESSION BETWEEN BANGLADESH AND INDIA

A phone in a village has several far-reaching implications. We have found several significant impacts on social life, in case of 'Grameen Phone'. [51] It is seen that social impact is positively reaching the poor rural families. Grameen Phone claimed that it has a sound prospects and plans'.[52] GP also claimed that the 'call rate' is also very much

[50] N. Vittal, Roadmap for Telecom Policy, Hindu, April, 15, 2003

[51] GTC recently claimed that the average net income of the phone lady is around Tk. 2,500 to Tk. 5000 per month (USD 50 to 100). The amount is quite attractive when compared to other rural occupations. With the completion of the network, 40,000 VPs operators will be employed for a combined net income of $24 million per annum (assuming a 20% increase in air time use). There is also a plan to provide phones to the local police station, hospital/health complex, agriculture office, family planning office, fire stations, etc. where the villagers could call for help. It is also said that the Grameen Phone Authority that they will also provide Cell may use broadcast facility of GSM system to convey particular message (i.e. flood, cyclone, epidemic, health care etc.) to a particular area.

[52] Village Phone is used as a community phone in the villages where telephone was a rarity earlier. One VP covers approximately 2500 people of that village. As per our

consumer friendly.[53] In the long run if number of customers increase then the rates will also come down.[54] In urban area, the war to

estimates the currently operative 5000 VP have provided telephone access to 12.5 million rural people. Average usage of village phones is around 1600 minutes per month, out of which 600 minutes are outgoing calls. This unique concept (of the Village Phone programme) has attracted the attention and interest of the international media and different operators. It seems to be a very prospective project in terms of usefulness to villagers anywhere in the world, who remain isolated. GrameenPhone will gradually expand its network throughout the country. Following the network, GTC will expand its operational areas for village phones as well. Using the Fibre Optic Network (FON) of Bangladesh Railways, GP has already reached Chittagong, Khulna, Sylhet and Rajshahi. GTC has provided VP in between these areas. Further, GP has connected Chittagong with Khulna, through its own backbone microwave link. This has permitted connecting another major town named Barisal, where there are no railway tracks and hence FON is unavailable. After connecting all big cities along the railway track, GP will intensify its network penetration in the remote areas. Once the network expansion of GP is completed, geographic areas of VP will cover almost the entire country.New target is to install 40,000 VPs by that time (December 2004).

53 Tariff polices are to be liberalized, with regard to the area or the service, from time-to-time, in certain market segments and efforts are to be continued to encourage extension of maximum service at minimum cost with particular emphasis in supporting the industrialization efforts of the country. In case of GrameenPhone charges are Tk. 2.00 per minute for local calls at peak hour (compared to Tk. 4 for urban subscribers). For NWD and ISD calls, GP charges BTTB rate plus VP air time charges. 15% Value Added Tax (VAT) is added to total call charges. To compensate the administrative costs incurred by GTC and GB, 15% service charges are added to the total GP bill. VP Operators are supplied with a price list that includes all kinds of charges and a margin of profit for themselves. For example, for a local mobile call, retail rate is Tk. 5, out of which GP cost is Tk. 2, VAT being Tk. 30, service charge Tk.0.30. Therefore the rest Tk.2.40 is the profit for the VP Operator

54 The Bangladesh government's plan to install card phones on an extensive scale does facilitate outgoing calls from *Thana* (Police Station) levels, but not from the villages. VPs enable villagers to make and receive calls from their own villages A VP operator has a financial incentive to make the extra effort to find the person for whom the incoming call is destined. While, at the present income level, demand for direct subscriber telephone will be very few and depending upon private phones cannot ensure universal access.

attract customers has been started, and the firms like 'Pacific Bangladesh Telephone Limited', Telecom Malaysia International Limited are working for cellular/ mobile facilities.[55] In rural areas Grameen Phone, Seba and Bangladesh Rural Tele Communication Authority are working for cellular/mobile business.[56] The rural-urban communication gap is coming down.[57] Given the stakes in future growth and future urban employment opportunities, Bangladesh should choose an appropriate strategy to involve its private sector in making the costly investments in telecommunications infrastructure on a BOO/BOT basis. There is no shortage of international interest if the state provides the correct framework. The advent of radio-based cellular telephone networks has already introduced an element of competition by bringing in

[55] Pacific Bangladesh Telecom Ltd. (PBTL) is a joint-venture partnership company 50% owned by a local conglomerate, the Pacific Group. The company was established in 1990 as the first and only fixed and mobile cellular telephone operator in Bangladesh. The development of Bangladesh's cellular phone market, until recently, was hampered by the failure of BTTB to provide enough connections due to the upgrading of its own network. PBTL had 7,000 subscribers in 1997 and was growing at a rate of 600-700 subscribers per month. On the analog front, PBTL also expected the number of registrations to increase.

[56] *Privatization in Bangladesh*, Privatization Board, Government of the Peoples Republic of Bangladesh, Dhaka, 2000, p. 10.

[57] Due to diversified occupation being perused, many people live out side their villages. Fifty per cent of rural households do not own any land. They seek off-farm and non-farm income earning opportunities outside their villages. Labour mobility has increased enormously in the recent past. Practically, millions now work outside their own village - even abroad. On the other hand, volume of rural-urban trade has considerably increased. Thus two important factors emerge-enhanced labour mobility as well as marketing of agricultural production—which has resulted in enhanced demand for telephone services. The other reality is that personal voice communication beyond hearing distance has not been possible even today from 90 per cent of the 68,000 villages in Bangladesh.

private operators who typically have to vie for market share to remain profitable. New players, given the proper incentives and regulatory guarantees, can bring new advances and a new tempo that a state-run single provider cannot, to meet the challenge of constructing the telecommunications networks of the future.[58]

Many women in village have started taking benefits as a phone operator. Women like Hazera Begum are getting benefits of rural tele-reform in Bangladesh.[59] But there are many people who still don't access the facility of the new age. The root cause of this low-level reform is 'poor and a static' economic atmosphere. Except in the case of cellular phones, the state-run BTTB have been slow to embrace institutional reforms, which could begin to remedy the woefully unsatisfactory state of the telecommunications network and the services it should be delivering. Such reforms start with the introduction of economic incentives and competition.[60]

In India the idea to start a new wave of telecom reform in village is now in practice. To help bridge the digital divide, TRAI has recommended strong pro-active steps for providing data communication facilities in villages so as to facilitate access to information services. It has, therefore, recommended that by 2004,

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58 *Bangladesh 2020*, op. cit. No. 2.

59 Hazera Begum, one VP operator has collected the telephone number of the Prime Minister. She keeps it handy for possible use if necessary (perhaps in an extreme emergency). The operators also have the phone numbers of the local MP (Member of Parliament), police stations etc. Thus Village Phone has made the operator conscious about their right to call police, MP or even PM in case of need. This is a step forward towards strengthening the base of democracy in the country.

60 *Bangladesh 2020*, op. cit. 2.

about 35,000 Village Public Telephones (VPTs) should be upgraded to Public Tele-Info Centres (PTICs) and, based on techno-economic considerations, all VPTs should be upgraded to the level of PTICs by the year 2010.[61]

Non-governmental Organization like Self Employed Womens Association (SEWA) has initiated to link the women to telecom reform through the new programe of "*Theli-phone*".[62] India can take some lessons from Grameen Phone where some job opportunities for rural women have also started through the Grameen phone. Government of India should connect VPTs to the employment generation schemes. In this context local Non Governmental Organizations (NGOs) and private telecom players can help more.

5.9 CONCLUSION

In this ongoing 'contracting out' practice the real challenge for the telecom privatization in Bangladesh appears to be the formulation of a long-term policy, where the maximum number of people are covered. Currently in Bangladesh, 90% of the mobile phone users are in Dhaka alone. The low level of coverage builds up a case for urgent reform. However if reform leads to monopolistic environment, then in a poor country like Bangladesh, consumers have to suffer a lot.

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[61] Introductory Letter, *Recommendation on Issues Relating to Universal Service Obligations*, (October 3, TRAI, 2001), New Delhi.

[62] Recently, SEWA Bank has announced a special loan product for "*Theli-phone*" to enable women to purchase mobile phones which they will carry in their small bags "*Thelis*" or in the vegetable baskets, hand carts. It will help small shopkeepers, embroidery workers, vegetable vendors to have market information about the prices of the products, to contact traders and merchants for supply orders and on prices.

At the regulatory level, both India, as well as Bangladesh, have established independent regulatory commissions. While in Bangladesh, regulatory commission was established only in 2003; in India it was a established in 1997. That is why the telecom reform in Bangladesh is not properly regulated in comparison to India. Commenting on the regulatory practice in India, BTRC chairman stated that India was the best example of regulation in the world.[63]

Telecom sector is still one of the most important sources of revenue for the Government of Bangladesh. Because of this fact, government of Bangladesh does not want to fully privatize this sector. Owing to the agreement with WTO, an important question that will have to be addressed early is how best to restructure and privatize BTTB, BSNL and MTNL. A report on Bangladesh states that global experience, especially from countries where telephone penetration rates are low, point to some definite advantages of early entry of new players, operating on equal terms with the incumbent. They can provide much needed telephone lines, spur better performance from

[63] Interview with BTRC chairman, Syed Morgoup Mosud, 15 March, 2003,Dhaka. (Because of the greater competition by the private service providers, cut in the cellular-to-cellular STD call rate by 67% in the beginning of the year had seen STD traffic jump by 25% within 15 days of taking the knife through the tariff. Cell-to-cell STD revenues are estimated to 10–12 % of the total revenue of cellular companies and fetch more than Rs. 600 cr. for the cellular operators. With local call tariff already being lowered to a big extent, cellular operators have been competing mainly on roaming and long distance charges. Cellular companies had slashed STD charges for cellular-to-cellular calls to Rs 3 per minute from Rs 9 per minute, a deep 67% cut in the beginning of the year. While Air Tel offered home networks last year, six operators, including Hutchison, BPL, IDEA Cellular, Oasis, RPG and Spice formed friendly networks to offer cheaper roaming traffic. See *The Economic Times*, 7 April, New Delhi.

BTTB, and reduce—but not eliminate—the burden of regulations.[64] In India, such exercises have already been started and the regulatory commitment is also in practice but because of the very new regulatory body in Bangladesh it will take time to speed up reform. A recent study on Bangladesh by The World Bank stated that the telecom sector strategy was highly inward looking from a development point of view, being driven much more by revenue considerations and protection objectives than effective sector development objectives.[65] In India, the existing control on international long distance by VSNL, and on fixed line by BSNL is still an inward looking aspect. But Indian position is stronger than Bangladesh, because the consumer and entrepreneur base is much wider in India. It will not be surprising to note that the potential subscribers base in India is not only highest in South Asia but in the world, because in China the cellular/mobile growth is close to the stagnation.[66] Indian private players have a special advantage in comparison to a country like Bangladesh. In this advantageous position, India has a clear-cut benefit in privatizing this sector, but same does not hold in case of Bangladesh, where government's telecom policy is still far from implementation and in the absence of a

[64] *Bangladesh 2020*, op. cit. No. 2.

[65] *Bangladesh: Review of Public Enterprise Performance and Strategy*, The World Bank, Nov.2002, p.100.

[66] Data based on WDI, The World Bank, 2003 shows that the tele-density has increased almost 50 times in China during the period 1991–2001, but in India it was less then six times during the same period.

proper regulation, a middle-man such as the owner of PCOs are taking undue advantage, while consumers have to suffer. Bangladesh has to take some lessons in terms of legislation to regulate this sector. In India the Telecom Dispute Settlement and Appellate Tribunal (TDSAT) is functioning. But BTRC chairman is totally opposed to such a tribunal. In an interview the chairman of BTRC said:— "I don't think it helps the process of telecom reforms. Indian experience in this regard is highly objectionalble. It can only slow the process of privatization reform".[67] But in any democracy without such type of special tribunal it will be an injustice to the common people as well as the common service provider. The reform specially has to reach to the common people. Ultimatly, it is the duty of the government to see how players are providing services. Privatization of telecom sector in Bangladesh is facing the problem of 'temporal distance'[68]. This temporal distance is wide in India too. Where many decisions taken by the government in telecom policy is far from implementation. However in India universal services to all uncovered areas, efficiency and transparency in spectrum management is still a major challenge. In case of several decisions were government also find some private partner thorough BOO and BOT the basic aims and objectives has not achieved yet. Such as in Bangladesh 100% equity participation by private player, joint venturing by local companies,

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[67] Interview with BTRC Chairman, Syed Morgoup Mosud, 15 March 2003, Dhaka.

[68] Measured most simply as the length of time since the date equity was first transferred to the effective ownership and control of private investors from the state.

competition through regulation are still awaited for fast implementation.

The success of telecom privatization depends how successfully this distance will be narrowed in the coming years, where government is not able to choose the players or sometimes unable to decide, how to formulate the policies to stop monopolistic practices.

Chapter 6

DIVESTITURE IN INDIA: LESSONS FROM BANGLADESH

6.1 INTRODUCTION

Public Enterprises (PEs) were almost unheard in pre-Independent India. It was the industrial policy resolution of 1948, which brought the public sector into the limelight. As stated by Vinod:

> The post-Independence inheritance saw, in what now seems to be a rather simple minded way, the merits of government intervention in the economy. Interestingly enough, the private industrialists of India had a stake in building a large public sector. One need only refer to the experience of Mysore under Visveswaraiah and later to Bombay Plan of 1944, drafted by India's major industrialist, to realize this.[1]

After the experience of the Soviet Union it was very much expected that planning could do what a market could not. 'Socialistic pattern of the society' was accepted by the Parliament in December 1954 as the objective of social and economic policy. A new industrial policy statement reflected this decision issued in 1956. Jawaharlal Nehru had said that 'Public Enterprises are the temples of Modern India'.[2] It was the time when people had very much interest in public enterprises. Vikram Sarabhai stated:

> When we create public enterprises, we should not disregard the role of competitive situation. These were some of the best techniques which were inherently available to us to produce horizontal control system

1 Vinod Vyasulu, *Public Enterprises in a Restructuring Economy*, Inaugural Lecture, August 12, 1993 Institute of Public Enterprises, Hyderabad.

2 Industrial Policy 1948 and 1956 strongly showed this economic philosophy in the leadership of Nehru-Mahalnobis model.

> which he referred the creation of competitive situations within the public sector would be very much supportive to the creation of an environment in which the primary task which was really pursued as a means of survival rather than as a goal which we merely try to reach.[3]

But very soon we almost forgot PEs as the temples of modern India and we also forgot the creation of the competitive situation within the PEs. This was not only the reality of PEs in India but for other developing countries as well. After a long time, when the era of PEs is over and the survival of these enterprises has become difficult, India is facing the problem in protecting past continuity. It was said in the statement on industrial policy 1991 –'Government's policy will be continuity with change'.[4] The Disinvestments Commission also stated that the public sector in India continues to be an important component of the Indian industry even after liberalization unlike the experience in many other countries, which went in for wholesale privatization.[5] The discontinuity has become a global phenomena. Ahmed et al. has stated that there has been a marked discontinuity in post-war world economic history: from the Second World War through the 1970s and in most sub-periods of that era, the public-

[3] As cited in *Management for Development*, Vikram Sarabhai, A collection of paper edited by Kamla Chowdhry, Vikas Publishing House Pvt. Ltd. Delhi, 1974. pp. 24–28.

[4] *Statement on Industrial Policy*, Government of India, Ministry of Finance, New Delhi, July 24, 1991.

[5] *Disinvestment Commission Report*, No. 1 p. 15, as cited in www.divest.nic.in., website assessed in January 2003.

enterprise sector either expanded or remained the same size in almost all countries; conversely, in the 1980s and early 1990s the sector either contracted or remained the same size in most of the countries.[6]

In the context of local and global changes in the economy, this chapter will try to answer some specific questions about Indian PEs. We will try to answer some questions like–why India established PEs? Did they succeed in that purpose? What is the idea and need behind the divestiture of Indian SOEs? How is India successful in divestiture? And finally, what lessons India can take from Bangladesh?

6.2 BACKGROUND

India opted mixed-economy as a way to develop the nation. The growing tendency of public investment in public enterprises is clearly shown in Table 6.1. Public Enterprises investment in 1999 was 7935 times higher than the investment in 1951.

6 Ahmad Galal, Lerroy Jones, Pankaj Tondon and Inngo Vogelsang, *Welfare Consequences of Selling Public Enterprises—An Empirirical Analysis*, Oxford University Press, 1994 p.3 Same view has been also expressed by Jones et al. in the book *Selling Public Entewrprises: A Cost-Beneift Methodology*,The MIT Press, London,1990, p. 162.

Table 6.1
Growth of Investment in Central Public Sector Units

Year	*Number of Enterprises*	*Total investment (Rs. crores)*
1951	5	29
1956	21	81
1961	47	948
1966	73	2,410
1969	84	3,897
1974	122	6,237
1979	169	15,534
1980	179	18,150
1985	215	42,673
1990	244	99,329
1995	245	1,33,292
1997	242	2,06,655
1998	240	2,21,987
1999	240	2,30,140

Source: Public Enterprises Survey, 1998-99.

Etienne stated that a large public sector was created without discouraging free enterprises, but at the same time setting a number of controls and regulations on the private sector. Industrialization was taken up on a large-scale with emphasis on heavy industries. Most heavy industries were in the newly created public sector, although Tata Iron and Steel Company (TISCO), in the private sector was allowed to double its steel production. The public sector kept growing but many corporations were operating below capacity with mounting losses. The wave of nationalization (bank, coal mines, private sick mills taken over by the state), the growing interference of the government (MRTP Act and other regulations) in the private sector resulted in all kinds of disincentives for private entrepreneurs.[7] An overall profile of the central Public Enterprises performance is presented in the table 6.2. Table 6.2 shows continuous increase in capital employment.

Table 6.2
Expansion and Performance of Central PSEs

Year	*1980-81*	*1990-91*	*1996-97*	*1997-98*
Running Enterprises	163	236	236	236
Capital employed (Rs. cr)	18.207	1.02.084	2.01.496	2.23.047
Turnover	28.635	1.18.676	2.54.910	2.23.047
Gross Profit	1.115	11.102	30.309	36.093
Net profit	-203	-2.272	9.992	13.725
Gross profit to capital employed (%)	7.8	10.9	15.2	16.2
Gross profit to turnover (%)	5.0	9.4	12.0	12.7
Net profit to capital employed (%)	-1.1	2.2	5.0	6.1

Source: Tata Statistical Services Ltd., *Outline of India 1999-2000* (Mumbai, December 1999), Table 130, p. 123.

7 Glibert Etienne, *The Process* of Industrialization in India, Pakistan and Bangladesh, South Asia Journal, 3, 1990, p. 241.

India, one of the earliest countries to gain independence from the colonial state, adopted planning to promote industrialization and soon became a role model for other emerging countries.[8] Much emphasis was placed on planning and investment in basic industry and the establishment of public enterprises. However, insufficient consideration was given to organizational and administrative capability given that such an active role for the state in industrialization would have necessitated extensive human and institutional resources, as well as extensive mobilization of financial resources.[9] In the special 10th anniversary issue of *Business Today* it was stated:

> The relationship between the government and business has been seen many ups and downs since 1947. For the first 20 years, both worked in unison. If Jawaharlal Nehru went in for a planned model of development and placed a lot of reliance on the public sector, then industry was more than willing to cooperate to achieve this vision. Many industrialist of the era like JRD Tata, Walchand Hirachand, Jamnalal Bajaj and Ghanshyam Das Birla shared Nehru's vision. Tata for example, sent his team to train staff of the public sector companies. And hotelier M.S. Oberoi, arranged for the training of chefs at Asoka Hotel.[10]

In 1970s the saga of nationalization was at its peak. It finally changed the character of the Indian industry. The *Business Today*

[8] Merillee Grindle and John W.Thomas, as cited in Mascarenhas C.R, *Comparative Political Economy of East and South Asia:. A Critique of Development Policy and Management*, Macmillan, London, 1999, p. 21.

[9] Ibid, p. 21.

[10] Swati Prasad, Business before and after economic reforms in India, *The Business Today*, Jan. 20, 2000, p. 26.

held the view that things had changed drastically after 1967 when Mrs. Gandhi took a decidedly leftist line. Under the license-permit quota raj, entrepreneurs couldn't base their business plans on market conditions. Bajaj Auto's Rahul Bajaj once said that he was willing to go to jail like his forefathers, not for the country's freedom, but the freedom to produce more than the stipulated amount to meet the demand.[11]

India PEs have established a strong base of support from the industrialist as well as political leaders. India has continued the regime of PEs for a long period of time more than 50 years. PEs were established as an engine of economic growth in India. Policy makers always had a strong confidence in PEs. This fact can be seen till the mid-1990s. However in Bangladesh the PEs regime was very small as compared to India. A large number of PEs in Bangladesh divested very soon without any maturity in the nationalization process.

6.3 AN ASSESSMENT OF INDIAN PUBLIC ENTERPRISES

Indian PEs has a very different type of experiencnces. PEs have been overburdened. Low productivity, poor management, conflict between workers and the government, misuses of subsidies, over-employment, were the outcomes over a period of time. People's expectations were too much. Jalan states that in view of its different culture, the public sector is particularly ill-equipped to manage service industries and

[11] Ibid, p. 26.

small, labour intensive operations.[12] Etinne also stated that by the end of the 1970s, many Indian factories were using obsolete, second grade technologies. Large areas of industry became uncompetitive due to outdated technologies and uneconomic scales. India thus had reached the lowest value in absolute and relative terms compared to domestic production of capital goods imports among the new industrial countries. Besides, this relative isolation from the outside world was particularly ill-timed, occurring as it did during years of considerable technological change in Japan, the USA and Western Europe. Structural defects such as power shortage and transportation bottlenecks only added to these constraints.[13] Srinivasan also came to the same conclusion saying that since the enterprises were not directly compensated for performing 'public interest' functions, their performance suffered.[14]

Economists had given many reasons behind the problems associated with PEs. Jha has pointed out that one of the basic reasons for the low profitability of the public sector was the widely shared mental aberration that public sector corporations should be philanthropic rather than commercial in nature. This misconception was strengthened by a misunderstanding of certain high level pronouncements to the effect that the investment in the public sector were not motivated by the considerations of profit. Public enterprises have been located in places where there is no infrastructure, no

[12] Bimal Jalan, India's Economic Crisis: The Way Ahead, Oxford University Press, New Delhi, 1992, p. 78.

[13] Etinne, op. cit No. 7, p. 242.

[14] T.N Srinivasan, *Eight Lectures on India's Economic Reforms*, Oxford University Press, New Delhi, 2000, p. 5.

roads, no water supply, no housing, no rail links and no electricity. The cost of providing these and developing municipal facilities and civic amenities like schools and hospitals has been added to the capital cost of the project.[15] This argument was also supported by Etienne saying that widening process of industrialization has to contend, as in India, with a number of problems. Power shortages are acute and worsening and in spite of rising investment, the demand of electricity remains much more than its supply.[16] Many PEs have suffered from the lack of proper supply of electricity in the planning period. Many State Public Sector Enterprises (SPSEs) in BIMARU (Bihar, Madhya Pradesh Rajasthan, Uttar Pradesh) states are still facing this problem. Jha pointed out:

> The reason why many units in the public sector are making low profit or even losses is that the investment in them was excessive. In many instances, the capacity installed on the advice of foreign experts (who did not have adequate understanding of Indian conditions) was too large and remained substantially underutilized year-after-year. Another factor responsible for high capital cost was that very often they were financed through bilateral credits that ruled out international competition and the opportunity to buy plant and machinery from the cheapest source. This problem was further aggravated by cumbrous time-consuming procedures for obtaining the requisite clearances, the constitution of the project, purchasing and installation of the machinery. A prolongation of the period of construction adds to costs in many ways. [17]

[15] Jha, L.K, *India's Economic Development A Critique*, Har-Anand Publication in association with Vikas Publishing House Pvt Ltd, New Delhi, 1991, p. 83.

[16] Etinne, op. cit. No. 7 p. 248.

[17] Jha, op. cit. No.15, pp 84–93.

Profits and losses of public enterprises were always questionable. Raj stated that when a public enterprise makes a profit, the spokesmen of the government and the public sector unit are only too happy to admit that their enterprises are efficient. On the other hand, if they continuously incur losses, the same spokesmen argue that the major objective of the public sector is social good and not profit.[18] Hazari and Oza argued this aspect in 1970 when they stated:

> Since the non-profit objectives are a much larger component of public investment, it is improper to compare the rates of return without making appropriate adjustment -which would require quantification of the non-profit objectives. The price of public sector products are controlled formally or, what comes to the same thing, the product sold by the government at cost-plus and, to that extent, the possibilities of making a killing on profits are generally dim.[19]

.The tendency to incur losses by these PEs is still continuing. Ray stated that India is amongst both the forerunners and the frontliners of the Third World economies where the public sector has steadily grown in both structure and dimension. Unfortunately, however, even after long periods of gestation, many of these units in the public sector continue to be unable to register even a modicum of profitability, and, are therefore proving to be a drag on the public exchequer and contributing to such controversial investment-

[18] Raj A.C.Besant, *Public Enterprise Investment Decisions in India -A Managerial Analysis*, Macmillan, India, p.22.

[19] R.K. Hazari and Oza A.N, in (Ed.) Robinson E.A.G and Kidron Michacl, Economic Development in South Asia, Macmillan, India, 1970, p. 93.

strategies as deficit financing, and the improvement in the early eighties may be nothing more than a flash in the plan.[20] Srinivasan also stated the same view saying that by and large, the public sector has acted as a break on private sector development. The choice of location, technology, employment and pricing policies of the public sector had become and continues to be politicized so that efficient development was precluded.[21] Due to abovementioned factors, PEs continuously lost the part of growth, and they became loss-making ventures.

6.4 RECOMMENDATIONS OF COMMITTEES AND COMMISSIONS

The government has set up various commissions to look into the problems of PEs. In this context, the Economic Administration Reforms Commission (EARC) had examined the gamut of the issues concerning public enterprises and submitted various reports. One of these is related to "autonomy and accountability". Another report which dealt with "Government Clearances and Approvals" provided some guiding principles relating to pricing policies to be adopted by the PEs. The finindings revealed that in a number of cases, the losses were the result either of difficulties inherent in the projects right from the beginning or of subsequent adverse developments which had vitiated the investment decisions (examples of these were given in the

[20] S .K. Ray., *Economics of the Thirld World*, Prentice Hall of India Pvt. Limited, New Delhi, 1983, p. 126.

[21] Srinivasan, op. cit .No. 14, p. 5.

body of the EARC Report). The report stated that detailed studies would have to be undertaken by expert groups in each case to analyze the problems and to identify the possible options. There may be few cases in which the closure of the unit may be one of the possibilities which have to be seriously considered, but there could be obligations such as keeping the operations going while minimizing cash losses, reducing inventories through marginal-cost pricing and transferring under utilized equipment to other public enterprise which may have greater use for it. It was important that the necessary examination should be completed quickly, and the appropriate decisions taken at a very early date. The worst possible option would be to keep hopeless cases alive and accept a continuing hemorrhage of recurring cash losses with no prospect of improvement.[22] In the number of cases, substantial cost and time overruns on project completion had led to heavy over-capitalization and contributed to recurring losses.[23]

The other important aspect of PEs losses is the price policy of the public enterprises. This report also mentioned that among the governmental policies which have contributed to the losses of public enterprises in the past have been pricing policies, but the underpricing of basic materials such as steel, coal, cement, etc. has been largely remedied. However, a point that still needed to be

[22] Report on "Profitability of Public Enterprises" Under the chairmanship of L.K. Jha as cited in Annexure 1' *Public Sector in India Changing Perspective*–S.N. Raghavan, AITD, 1994, New Delhi, p. 162.

[23] Ibid, p. 163.

reiterated was that if any subsidization of any product was to be done for a public, economic or social purpose, this should be done by the government and not by the producing public enterprise.[24] The government started a new approach of Memorandum of Understanding (MoU). In the 1980s, a determined effort was made to distance ministry officials from the central government SOEs. Each ministry was to enter into a MoU with its PEs. The MoUs would set out -agreed targets to be achieved by the ministry on supporting actions that it would take and on which depended the achievement of the enterprise targets. An independent body was to act as go-between to enable the signing of MoUs that would be fair to both parties. Ministry officials took the exercise seriously in the first year, when the MoU became yet one more set of papers to be prepared by the SOEs and negotiated with some minor official from the ministry.

By the second year, government officials were making it clear that any commitments made by them applied only to actions by their own ministers, not by other ministries in the government. The MoU was no longer a two-party agreement. It was a set of targets on the performance of which top management of SOEs would be evaluated. One NCAER report accepted that except for the introduction of the MoU and periodic declarations about the need to have a financially strong public sector, there was no serious attempt at public sector reform throughout the 1980s and only hesitant steps in the 1990s.[25]

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[24] Ibid, p. 164.

[25] J. L. Bajaj, *The Indian State in Transition*, NCAER, 2001, New Delhi, p. 199.

The government also appointed yet another committee under the chairmanship of Arjun Sengupta. The Committee made the following recommendations.

1. Distinction should be clear among PEs in terms of (a) core and non-core sector and (b) competitive and non-competitive sectors,
2. Competition should be in the non-core sector.
3. The committee on grounds did not favour the selling of shares that would create the problems of ownership and that there would not be any takers for the shares of loss-making units.
4. Profit-making PEs would raise resources through bonds.
5. Loss-making units in the non-core sector could be closed or liquidated, if there is no scope for reviving them.

The disinvestments commission report stated that the government's withdrawal from non-core sectors was indicated on considerations of long-term efficient use of capital, growing financial unviability and the compulsions for these Public Sector Units (PSUs) to operate in an increasingly competitive and market- oriented environment. A large number of PSUs in these sectors were either marginally profitable or unprofitable. Budgetary support to these unprofitable PSUs has been a recurring feature over the last several years. In the first report, the Disinvestment Commission had classified 35 out of the 40 PSUs referred to it into core and non-core categories for the purpose of determining the extent of disinvestment in accordance with the stated government policy. It was also mentioned in the report that this classification could undergo change over time. At that time the

Commission had not yet gone in depth into the working of these 40 undertakings. As a result of further examination of the PSUs covered in this second report it has become necessary to reclassify some of them for the reasons stated in the specific recommendations relating to them. Ultimately, the decisions on the extent of disinvestment have to be based on whether or not any public purpose is served by government ownership and control in a PSU, given the nature of the market in which it is operating.[26]

Economist Tanbeer Akram reacted on Arjun Sengupta's recommendation, basically on core and non-core issues:

> The Indian authorities have often identified certain sectors as 'core,' and have argued that enterprises in these sectors ought to remain under public ownership and control. There is no theoretical basis of drawing a distinction between 'core' and 'non-core' sectors. It relies on a *priori* notions, influenced by concepts from central planning which emphasized heavy industries. However, from the vantage point of economic rationality, it is sensible to identify sectors with positive or negative externality, and to determine the market structure of an industry. The authorities can support sectors with positive externality and regulate sectors with negative externality. But the appropriate tools for supporting and regulating are subsidies and taxes rather than public ownership of enterprises. In case of monopolistic industry, the authorities should deregulate and encourage competition. In case of natural monopolies, the authorities can set appropriate regulation to assure the optimal level of output and price.[27]

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[26] DCR op. cit. no. 5, p. 15 and DCR no. 2, p.11 as cited in *www.divest.nic.in/report/html.* , website assessed in January 2003.

[27] *http//www.colmbia.edu/~ta63/index.html.*

The core and non-core issue is one of the controversial issue in the entire post-reform privatization period. We will discuss this issue in the section of political economy of privatization in this chapter.

The 75th report of the Public Accounts Committee (PAC), 1993–94, presented to the Parliament on 29th April 1994, deals with the subject of Disinvestment of Government Shareholding in selected PEs during 1991–92. Its major findings are as follows:

1. Apart from revitalizing the public sector, a part of the government shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers so as to raise resources and encourage wider public participation;
2. The audit review based on findings noticed in the course of test audit of records of Department of Public Enterprises (DPE) and further examination of the subject by the PAC has revealed a number of inadequacies and disquieting features in the implementation of the disinvestment process.
3. Lack of transparency in the manner in which the disinvestments exercise was undertaken which requires to be probed with a view to finding out persons responsible for glaring acts of omission and commission in order to fix responsibility for the same.

Suresh Kumar Committee was appointed for valuation of shares, infructuous expenditure incurred in commissioning the services of private consultants; incorrect method of bundling in contravention of government decision in the disinvestments process.

6.5 DIVESTITURE IN INDIA

India was in a dismal economic situation at the beginning of 1991. Fiscal deficit was growing in 1989–1990. Iraq war (August 1990), Mandal issue (August, 1990), Babri Masjid demolition and the fall of the National Front Government (November 1990) had badly shaken India's fragile economy. Indian economic situation was worsened and became hopeless in 1990–91. As Bimal Jalan and J.L. Bajaj stated:

> The year 1990–91 has been among the cruelest in India's post-Independence economic history. Foreign exchange was only sufficient for two weeks imports. The situation of India's economy was so bad that credit rating had fallen, the budget had not been passed, and the country was in shock by the action of pawning gold.[28]

India had been affected by external shocks before, but the short-term situation had never been as difficult. The only previous parallel was perhaps the situation in 1958, with one difference however then; the world environment was favourable for development. The first Aid India Consortium was organized in 1959. Both multilateral institutions and bilateral donors came forward with massive external assistance to finance the Second Five-Year Plan. The situation was very different in 1991, when there was no equivalent response from the international community.[29] It was in 1991 when India had to take strong steps to counter the economic problems. This was also the

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[28] For more detail about the causes of India's worsened economic situation we can see the introduction by Jalan, op. cit. No, 14 and also *The Indian State in Transition*, by Bajaj. J. L, op. cit. No. 28, NCAER, 2001, p. 9.

[29] Jalan, op. cit. No. 12, p. 3.

year when most of the countries were planning to change the old policies in relation to industry, trade and services. The policy of Liberalization, Privatization and Globalization (LPG) was in discussion in every country. The last round of General Agreement on Tariff and Trade (GATT) was on the table for global discussion. Free trade, free investment and intellectual property rights were the main concerns for most of the countries. At the same time, the condition inside the Indian public sector was also very bad. Till the 1990s, PSUs in general, had access to funds from the government in the form of budgetary support. Widening fiscal deficits since the early nineties has however led to a sudden withdrawal of budgetary support for PSUs as it is evident from the following Table 6.3(A).[30]

Table 6.3(A)
Composition of Public Sector Plan Outlays (%)

	FY 95	*FY 94*	*FY 93*	*FY 92*	*FY 91*	*FY 90*
Net internal resources	46	34	41	39	34	34
Extra budgetary resources	41	52	45	42	42	34
Total budgetary support	13	14	14	19	24	32
Plan outlay	100	100	100	100	100	100

Source: *Disinvestment Commission Report*, No.1 p.13, as cited in www.divest.nic.in, website assessed in January 2003.

Budgetary support as a percentage of the total plan outlay on the public sector has declined considerably from 32% in FY 90 to 13% in

[30] Disinvestment Commission Report, op. cit. No. 5, p. 13.

FY 95. This has been offset by the increased component of extra-budgetary resources from sources other than the government, which has grown from 34% to 41% during the same period.[31] Out of 48 PSEs, 16 made profits in 1998–99 whereas remaining 32 made losses (the PSEs engaged in manufacturing, consultancy and contracting activities). In 1999–2000 out of 48 PSEs, 12 made profits and the remaining 36 made losses. The aggregate performance of 48 PSEs can be seen in Table 6.3(B).

Table 6.3(B)
Profile of PEs (in Rs. cr.)

	1998-99 (Actual)	*1999-2000/2000-2001 (Actual)/(Anticipated)*
Production	11330	11334.35 / 12170.20
Profit/Loss	-411	918.88 / -525.47

Sources: Public Enterprises Report, 1999-2000 and 2000-01.

This report says that the loss is attributed to shortfall in production of some major enterprises, shortage of working capital, surplus manpower, obsolete plant and machinery, besides increase in the cost of inputs etc. Table 6.3 (C) presents aggregate performance of Central Public Sector Units, which were 232 in 1999–2000.

[31] Ibid.

Table 6.3(C)

Profitability of Central Public Sector Undertakings ***(Rs. '00 crores)***

		1991-92	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-00*
1	Number of units	237	239	240	241	239	236	236	235	232
2	Paid-up capital	53,000	59,300	63,500	65,300	67,100	69,800	72,000	76,900	82,400
3	Net Worth	60,300	70,500	79,500	90,000	99,200	1,13,900	1,35,100	1,48,100	1,61,100
4	Capital employed	1,18,000	1,40,100	1,59,800	1,62,500	1,74,000	2,31,200	2,49,900	2,65,100	3,03,400
5	Gross profits	13,700	16,00	18,600	22,600	27,600	30,900	37,200	39,700	42,400
6	Profit before tax	4,000	5,100	6,700	9,800	13,600	15,400	19,200	19,700	22,300
7	Profit after tax (PAT)	2,400	3,300	4,600	7,200	9,600	10,200	13,700	13,200	14,600
8	Gross margin to Capital employed (per cent)	19	18	17	21	23	19	21	21	21
9	Gross profit to capital employed (per cent)	12	11	12	14	16	13	15	15	14
10	Pre-tax profit to capital employed (per cent)	3	4	4	6	8	7	8	7	7
11	PAT (Net profit) to net worth (per cent)	4	5	6	8	10	9	10	9	9

Source: Public Enterprises Report 2000-01.

India is an example where one can see that PEs are basically used for many private purposes. *Rail Roko, Dharna, Hartal,* electricity without paying the bill are certain problems which people are burdening every day on PEs.[32] Indian PEs have presented a very difficult situation for the policy makers. India changed the policy in the light of the global change as well as the internal mistakes of PEs.

Statement on Industrial policy 1991 pointed out industrial policies objectives till 1991 and it also planned to change the overall industrial structure of the country the policy stated:

> The industrial policy resolution of 1948 was followed by the industrial policy resolution of 1956 which had as its objectives the acceleration of the rate of economic growth and the speeding up of industrialization as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy resolution gave primacy to the role of the state to assume a predominant and direct responsibility for industrial development. The industrial policy statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted. The Industrial policy statement of 1977 laid emphasis on decentralization and on the role of small scale, tiny and cottage industries. Till 1977, industrial policy of India was inward looking. It was not promoting competitive environment. The industrial policy statement of 1980 focussed attention on the need for promoting competition in the domestic market, technological upgradation and modernization.[33]

A new strategy for the public sector was spelt out in the policy statement in July1991, which marked a turning point in the policy

[32] NTPC stopped electricity supply in Uttar Pradesh recently. Rail Roko, Dharna and Hartal stands for stoping the train, protest and strike respectively.

[33] Industrial Policy, 24 July, Ministry of Finance, Government of India, New Delhi, 1991.

guidelines as far as public sector was concerned. The philosophy behind the New Economic Policy (NEP) was that the atate should, by and large, leave industry and commerce to the private sector and concentrate on those areas where it had a special or unique responsibility.[34] In the abovementioned situation government embarked on the minority sale of shares in the SOEs. The rational, which was given by the government for disinvestent, was as follows:

> Because of the current revenue expenditure on items such as internal payments wages and salaries of government employee and subsidiaries the government is left with hardly any surplus for capital expenditure on social and physical infrastructure. Whereas the government should be spending on basic education, primary health and family welfare, huge amounts of resources and blocked in several non-strategic sectors such as hotels, trading companies, consultancy companies, chemical and pharmaceuticals companies etc. Not only this, the continued existence of the Public Sector Enterprise (PSEs) is forcing the government to commit further resources for the sustenance of many non-viable PSEs. The government continues to expose the taxpayers, money to risk, which can readily avoid. To top if all, there is a huge amount of debt overhang, which needs to be serviced and reduced before money is available to investment in infrastructure. This makes disinvesment of the government stake in the PSEs absolutely imperative.[35]

[34] Disinvest Commission Report, op. cit. No. 5, p. 22-23.

[35] *http//www.divest.nic.in/rational/html.*

The broad features of 1991 reforms which started a new weave of divestiture are presented below:

(a) Portfolio of public sector investment will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.

(b) The list of industries reserved for public sector was reduced from 17 included in the Industrial Policy Resolution of 1956 to eight by the July 1991 policy statement; subsequently in March 1993, two more items were removed. The six industries for exclusive operation in public sector are (i) arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships, (ii) atomic energy, (iii) coal and lignite, (iv) mineral oils, (v) minerals specified in the Schedule to Atomic Energy (Control of Production and use) Order 1953, and (vi) railway transport.

(c) The remaining industries were left open for private sector initiatives. In the context of the significant changes in fiscal, monetary, trade and industrial policies, the need for a review of the continued presence of the public sector in a wide range of activity was felt in the nineties.

Some other features are

(d) Dereservation of mining activity which allowed coal extraction for captive use by user industries.

(e) Invitations have been extended to private sector to invest in oil exploration and refining, otherwise reserved for public sector, as well as infrastructure projects like roads, ports, telecom etc.

(f) Private sector venture in power generation even with 100 % foreign equity has also been allowed.

The Indian government has taken some steps to divest some of the PSUs. Disinvestments process started by the government in 1991 adopted ad hoc procedures. Unfortunately till 1993 such ad hoc policies were continued. The government has appointed some committees to look into the problems of PSUs disinvestment to set a proper strategy. Rangarajan Committee was the first in this regard. In 1993 the Rangaragan Committee submitted the report on disinvestment saying that the percentage of equity should be generally under 49% in industries reserved for the public sector and not over 74% in other industries. The government also set a Disinvestment Commission to guide more specifically the selling strategy of shares of PSUs. In its first report, the Commission advised the government:

> Disinvestment as a strategy should also aim at wide dispersal of government shareholding in the domestic market and broad based ownership in the process. This of course, will be subject to limitations of the capital market in its capacity to absorb the proposed disinvestment and the private sector's capital requirements from the same market. Sale of shares in the foreign markets may, therefore; also become necessary and the extent would be determined on a case-to-case basis depending on the market conditions etc.[36]

[36] DCR, op. cit. No. 5, p. 16.

The general idea which came out after the liberalization and globalization is that only those countries would succeed whose cost of production is lower. Most of the Indian PSUs production cost is very high and products are also unfit for the consumer in many cases. It was imperative to change the production process through external help (foreign investment). Government alone can not work for the fitness of PEs. The Disinvestments Commission realized the global competitiveness to be faced by India. It stated:

> Increased competitive pressures have adversely affected some PSUs, which were earlier profitable. Growing financial stringency will reduce the capacity of Government to support them and consequently lead to their closure with loss of employment in large numbers. Thus, in all probability, unprofitable PSUs will continue to be an increasing drain on the budget unless a viable policy of disinvestment is evolved and implemented for them. Viewed in this scenario, disinvestment has larger implications than just selling government equity at the best price in profitable enterprises, as this alone may not provide long-term budgetary benefit unless the question of recurring budgetary support to loss-making PSUs is also addressed. The essence of a long-term disinvestment strategy should therefore be not only to enhance budgetary receipts, but also minimize budgetary support towards unprofitable units while ensuring their long term viability and sustainable levels of employment in them.[37]

The policy of disinvestment as enunciated by the government under Prime Minister Chadrashekhar was to divest upto 20% of the

[37] Ibid, p. 15.

government equity in selected PSEs in favour of public sector institutional investors. In the Budget speech 1991–92 it was said that in order to raise resources, encourage wider public participation and promote greater accountability, upto 20 per cent of government equity in selected public sector undertakings would be offered to mutual funds and investment institutions in the public sector, as also to workers in these firms.[38] The holding of 51% or more equity by the government was recommended only for the six scheduled industries.[39] But the United Front government had not fixed any disinvestment objective.[40] The *Economic Times* stated that the government had graduated from peddling small, loss-making bakeries to selling off large, profitable telecom and oil companies. It had demonstrated that it had the political will to stand up to carping criticism and to go ahead with the privatization programme even in adverse circumstances, such as there being a sole bidder and the bid being below the reserve price.[41] The government received a shot in the arm when the Supreme Court ruled recently that the court could not be approached to interfere with economic measures and policy-making authority of the executive.[42]

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[38] *http//www.divest.nic.in/disinvestment-policy.*

[39] Coal and lignite, mineral oils, arms, ammunition and defence equipment, atomic energy, radioactive minerals, and railway transport (On the basis of Rangarajan Committee).

[40] Disinvestment-policy op. cit, No. 38.

[41] *The Economic Times*, New Delhi, 21 Feb. 2002.

[42] Ibid (in case of BALCO disinvestment).

6.5.1 The Procedural Gap between Disinvestment Commission and the Government

The Centre for Monitoring Indian Industry pointed out that the record of the PSU equity disinvestment was poor since its initiation in 1991–92. The actual disinvestment exceeded budget expectations only in 1991–92, 1994–95 and 1998–99. The total receipt till 1999–2000 from PSU equity disinvestment amounted to Rs.19,281 crore, less than half of the total receipt of Rs. 44, 300 crore budgeted from this source during the period.[43] We can see the disinvestment gaps in Fig. 6.1 presented below based on the data presented in the Table 6.4.

Table 6.4
Disinvestment: Procedural Gaps

Years	*Disinvestment (in Rs. cr.)*	
	Budgeted	*Actual*
1991-92	2500	3038
1992-93	2500	1913
1993-94	3500	0
1994-95	4000	4843
1995-96	7000	362
1996-97	5000	380
1997-98	4800	902
1998-99	5000	5371
1999-00	10000	1829
2000-01	10000	1869
2001-02	12000	5632
2002-03	12000	3342

Source: Economic Survey 2002-03, GOI, p. 169.

[43] www.cmie.com/products/eis/macro/pub_main.

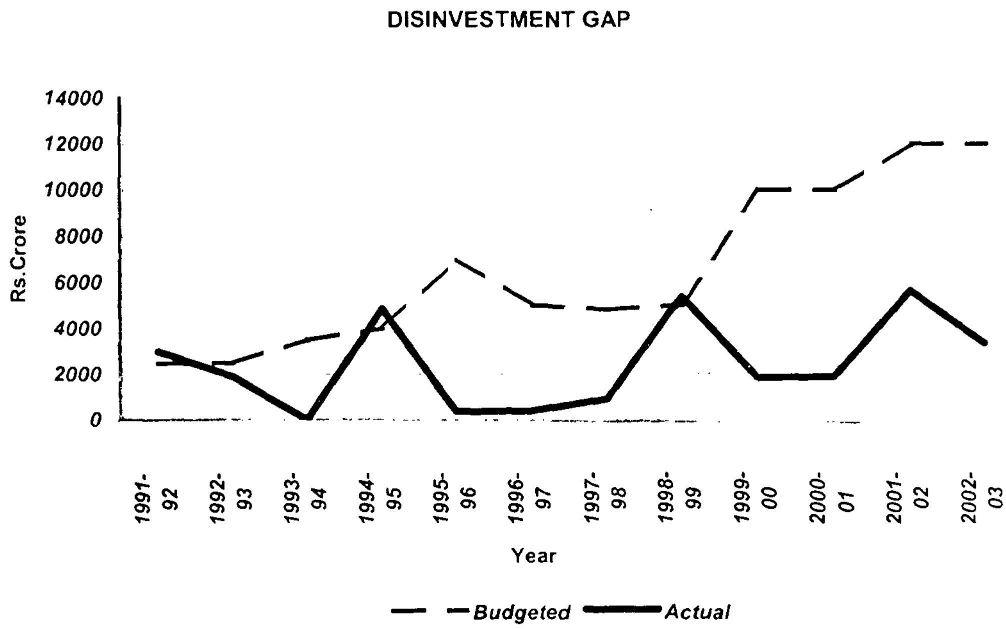

Fig. 6.1

At the Annual General Meeting (AGM) of Federation Of Indian Chamber of Commerce and Industry (FICCI) in 2000, the Finance Minister's speech pointed out that we are setting big targets because the eyes of the world were upon us. But the reality is that the world has also been seeing our performance and procedures. After a very slow and poor performance recently there are some good results.

On the basis of the list presented by the government we can look into the process of disinvestments so far.[44] 74% government shareholding in Modern Food Inddustries India Limited (MFIL) has been sold to a strategic partner in January 2000. Disinvestment of Gas Authority of India Limited (GAIL) was completed during 1999 in

[44] *nttp//www.divest.nic.in/list* , website assessed in May 2003,

domestic and Global Depositary Receipt (GDR) on the basis of T.L Shanker Committee recommendation, in which he had suggested divestment of 25% of share through the issue of GDR. The process of disinvestments has been completed in 7 out of 11 hotels. Disinvestment Commission recommended handing over the hotels located in prime locations to established hotel chains to run on long-term structured contract on lease-cum-management basis. But the disinvestments results of these hotels were against the DC's recommendations. It was directly sold to the bidders, without acknowledging the commission's recommendations. There were also some debates on the valuation of these hotels.

The entire government held equity in Bangaigaon Refineries and Chemicals Ltd. (BRPL) has been sold to Indian Oil Corporation (IOC) at a price of Rs. 658 crore. 51% equity disinvestment in favour of the strategic partner, at a price of Rs.551.50 crores has been completed in Bharat Aluminium Co. Ltd (BALCO). 74% equity in Hindustan Tools Limited (HTL) has been divested in favour of a strategic partner at a price of Rs.55 crore. The government has approved disinvestments of 32.74% equity held by Madras Fertilizer Ltd. in favour of a strategic partner, thereby reducing government stake to 26%. The government has decided for disinvestmment of 30% equity held by it in Kudermukh Iron Ore Company Ltd. the matter of renewal of the lease has been taken up with the state government. GDR offering has been completed in Mahanagar Telephone Nigam Limited (MTNL). The government has decided not to divest Oil India Ltd. (OIL). It has been decided against not to reduce government equity below 51% in Oil and Natural Gas Company Ltd. (ONGC). The government has recently embarked on the disinvestments of IOC disinvestments of BPCL and HPCL.

No decision has been taken to divest Rail Technical & Economic Service Ltd.(RITES), where DC has recommended divestment of 51% equity to be given to employees and the government to retain 25% equity. The government has decided to divest its entire equity holding in Hindustan Copper Ltd (HCL) in favour of a strategic partner.

As suggested by the DC, it intends to divest Power Grid Corporation of India Ltd. (POWERGRID) after entire electricity sector is fully restructured. It has been decided to divest 51% equity in Shipping Corporation of India Ltd. (SCI). Government has followed the DC's advise to 26% equity in Engineers India Ltd. The government again accepted the advise of the Commission to divest 74% equity in favor of a strategic partner. After the advise given by the Disinvestment Commission to divest the shares of National Lignite Corporation Ltd. (NLC), Projects & Equipment Corporation Ltd. (PEC), Bharat Heavy Electrical Ltd. (BHEL), Rastriya Ispat Nigam Ltd. (RINL), Pyrites Phosphate & Chamicals Ltd. (PPCL), no decision has been taken by the government so far. Decision also deferred in number of PSUs like National Thermal Power Corporation (NTPC), National Hydroelectric Power Corporation Ltd. (NHPCL), National Mineral Development Corporation Ltd. (NMDC), ITI Ltd. and Pawan Hans Helicopters Ltd. (PHHL).

The Government is restructuring some of the PSUs before disinvestment. In this list Power Grid Corporation of India Ltd (POWERGRID), Steel Authority India Limited (SAIL) are mentioned. Some of the PEs, which are going to be closed by the government include Hindustan Vegetables Oils Corporation Ltd. (HVOC) Hindustan prefals# Ltd (HPL), Rehabilitation Industries Corporation Ltd. (RICL), and Electronic Trade and Technology Development (ET&T). The government is offering voluntary retirement scheme (VRS) in Central Electronics Ltd. (CEL), Hindustan Steel Works Construction Ltd. (HSCL), Mineral and Metal Trading Corporation of India Ltd. (MMTC).

On the basis of some other country's experience DC also recommended some of the PEs for the Employee Stock Options (ESOPs). The government has introduced ESOPs in State Trading Corporation (STC), Mineral & Metal Trading Corporation and India Ltd. (MMTC). There are also some of the PEs where government has divested below 26% share.[45] But in some other PEs government has divested 51% share.[46] Government has also divested 100% share in MSTC Ltd. The offer of minimum of 51% equity to strategic buyer along with management control has not been accepted in Hindustan Latex Ltd. (HLL) and attempts to locate a strategic partner has not succeeded yet in Air India. Recently government has finalized privatization of 14 PSUs. It is a well-known fact in the history of Indian privatization that India has embarked on the agenda of privatization in 1999. The agenda of disinvestments is repeatedly forgotten by the policy makers and regulatory mechanism. In Table 6.5 we can see the cases of privatization in India.

[45] Name of these enterprises are IBP ltd, HZL, IPCL, STC. Disinvestment in HOCL is 32.16%.

[46] NEPA, HCIL, HIL, FACT, NALCO and MECON Ltd. are in this list.

Table 6.5

Privatized PEs So Far

Sl. No.	*Name of the Privatized PSU*
1	Lagan Jute Machinery Company Limited (LJMC)
2	Modern Food Industries Limited (MFIL)
3	Bharat Aluminium Company Limited (BALCO)
4	CMC Ltd. (CMC)
5	HTL Ltd. (HTL)
6	IBP Ltd. (IBP)
7	Videsh Sanchar Nigam Limited (VSNL)
8	Indian Tourism Development Corporation (ITDC)
9	Hotel Corporation of India Limited (HCI)
10	Paradeep Phosphates Limited (PPL)
11	Jessop and Company Limited
12	Hindustan Zinc Limited (HZL)
13	Maruti Udyog Limited (MUL)
14	Indian Petrochemicals Corporation Ltd. (IPCL)

Source: www.divest.nic.in/pvtpsu, website assessed in March 2004.

So far the process of divestiture is very interesting. In a very short period of time Indian disinvestment process has seen many ups and downs. Many political parties started to criticize the process of disinvestments in 1991 when it was first started by the Chandrashekhar government. Even the parties, which were in the government NDA embarked on the issue that disinvestments were against the swadeshi enterprises. Even the left parties did not favour this disinvestment. In the last ten years India has faced political instability at the Centre and State levels. On this issue one can cite the Stanford University paper which stated:

> India, a rare democracy in the Third World, is widely perceived to be a political success, despite its economic failures. India's poor choice of economic policies, however, has a political motivation. Getting elected has required targeting tangible spoils to an increasingly well organized, but fractured, electorate. Political patronage was the stimulus for interventionist economic management, eventually producing massive fiscal deficits. When the danger of defaulting on foreign debt became a reality in 1991, the country's leadership began to reevaluate the flawed economic policies without considering the flawed system of governance that accompanied and sustained the policy matrix. Patronage politics spawned corruption; money, muscle, or influence propelled public services and government, making the system of public administration as incompatible with liberalism as the system of economic regulation. Political and administrative imperatives impelled the country to economic policies that failed. Economic reforms will not be complete until accountable governance transforms the underlying administrative imperatives.[47]

Because of a strong democratic voice of the pressure group Indian privatization is not so easy as it was for Bangladesh and many other countries. The next section will deal with various aspects and issues in the political economy of divestiture in India.

6.5.2 Political Economy of Divestiture in India

Divestiture is always a difficult task for a developing country. In a country like India where SOEs are always a matter of great interest of

[47] *http://www.hoover.stanford.edu/publication/epp/82.* website assessed in February. 2002.

labour in which almost eight million people are surviving, a number which is more than the total population of many countries in the world. It is difficult to take a decision of privatization. We would now discuss some issues and problems of Indian divestiture.

6.5.2.1 *Transparency and Valuation*

Transparency and real valuation have been the main issues in the last three decades of the divestiture throughout the world. Just like in other countries, this is an equally important issue in India. Since the starting of divestiture, arguments are often hot on undervaluation and overvaluation. The Economic Times stated that in India, although the government has managed to push through a couple of deals –BALCO and Modern Foods—the controversy generated has raised questions over the viability of this method of disinvestments. No matter how transparent a bidding process is followed, ceding control of a public sector entity to a single private party will always provide fodder to conspiracy theories and political opportunism. As opposed to this, the only criticism a public sale of equity with no single beneficiary can invite is with regard to timing and price. This criticism too can be avoided if equity is offered in trenches and according to every determined schedule.[48] Ex-member Secretary, of Disinvestment Commission, G.Ganesh argued:

> Valuation of the enterprise will be higher since the strategic partner will have control over management. Undervaluations can give rise to

[48] *The Economic Times*, 6 June 2001, p. 6.

> complaints of kickbacks etc., overvaluation can create serious delays and prove counter productive. [49]

The report by the DC also looked at this matter very seriously, and it has also advised the government about the steps to be taken to achieve this target. The report states:

> All strategic and important decisions concerning PSUs be taken by the Board and not by the Government. Government's role should be limited to the issue of written directives concerning broad policy matters. The Board should be the final forum for all corporate decisions and Government, as the majority shareholder should exercise their right only through their representatives on the Board. Over a period of time, as disinvestment proceeds beyond 50% in some cases, government's role as the single-largest shareholder in the company will have to be substantially redefined to reflect its reduced shareholding interests. The audit by the Comptroller and Auditor General of India (CAG) and the examination of PEs by the Committee on Public Undertakings (COPU) may need to take into account the changing commercial environment in which PEs are operating and the need for PEs management to take quick entrepreneurial decisions to promote the interest of the company and the shareholders. Government may initiate necessary dialogue with these authorities to achieve these objectives.[50]

Reacting on the sale of PEs shares, General Secretary CITU, M.K. Pandhe said in an interview:

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[49] G. Ganesh, Disinvestment: Implimentation Issues, *The Hindu Survey of Indian Industry 2001*, p. 33.

[50] DCR, op. cit. No. 5, p. 36.

> It is common knowledge in government circle—even ministers admit in private—that every sale of a PE involves kickbacks. Even official in the Disinvestments Ministry have said that the system is highly corruption-oriented.[51]

There are certain examples presented in this context where undervaluation and less transparency can be easily seen. In the coming years, governments have to think about transparent moves.

6.5.2.2 *Public-Co-operation and Manpower*

In India, SOEs are one of the most important providers of jobs. We can see in Table 6.6 that a large part of skilled and non-skilled persons were getting jobs through SOEs. It is an essential duty of the government to restructure labour. But Ganesh has cited the example of Sri Lanka saying that labour restructuring in India is seldom attempted prior to sale, and agreements entered into with the prospective buyers have merely guaranteed employment for a certain period, whereas Sri Lanka, which undertook labour/employment restructuring prior to the privatization, could possibly be a model for India.[52] The link between disinvestment proceeds and expenditure on social sector schemes will become apparent to members of the public only through a Disinvestments Fund.[53]

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[51] Frontline, Jan, 17, 2003, pp. 8–9.

[52] Ibid p, 33.

[53] Ibid, p. 35 (Disinvestments Commission had recommended that all disinvestments proceeds from disinvestments should go into a Disinvestments Fund from which expenditure of PSEs prior to sale, payment of voluntary retirement benefits to workers, financing specific social sector schemes.).

Table 6.6
State of Employment IN SOEs.

Year	*India (million)*
1978-85	8.2
1986-91	8.5
1978-91	8.3

Source: Bureaucrats in Business, p. 288.

A study by the World Bank estimated the overstaffing in Indian SOEs, as can be seen it in Table 6.7.

Table 6.7
Overstaffing in Different Sector/SOE in India

Year	*Sector/SOE*	*Overstaffing (% of labour force)*	*Source*
1987	Telecommunication	19-80	World Bank data
1980s	Bombay port, container section	91	Svejmar and Terrell (1981)
1988	Central SOEs	33-40	World Bank data
1990	Steel, chemicals, textiles central SOEs	25-33	World Bank data

Source: Data complied by the researcher is based on *Burecrats in Business*, p.192

The question of overstaffing is a well-known issue concerning privatization. When private players come for profit-making they do not take the extra burden of the workforce of the related SOEs. The overburden of the workforce is a matter of consideration for the government. Most governments are balancing the macroeconomic reform with labour reform. From the first report of DC, it became a great concern for the government to take note of redundancy of labour force in SOEs. This is the reason behind the idea for creating a Disinvestments Fund. The Commission has advised the government to create a Disinvestments Fund from where employers could get benefit of Voluntary Retirement Scheme (VRS). The first report by the DC stated:

> The Commission, recommends that the proceeds of disinvestment be placed separately in a Disinvestment Fund (DF) and not be fungible with other government receipts. The National Renewal Fund (NRF) should be merged with this fund. The resources in the Disinvestment Fund may be used for temporarily meeting the losses of some PSUs before disinvestment, where required for a limited period during the process of short term restructuring or closure, for strengthening marginally loss making PSUs in preparation for disinvestment and for providing benefits to workforce found to be surplus during restructuring or closure. The savings to the budget on account of such recurring budgetary support to unprofitable PSUs could be diverted for investment in sectors like infrastructure, education and health and retirement of public debt. In addition, it is proposed that the funds for conducting the publicity campaign for the disinvestment of PSU shares be drawn from the Disinvestment Fund.[54]

The Fourth Report by the DC also discussed extensively about the VRS. The studies carried out by the Commission of the PSUs in its reports reveal that several PSUs including the profit-making ones have staffing levels well in excess of the comparable competing units

[54] DCR, op. cit. No. 5, p. 33.

in the domestic and international markets. Given the need to remain competitive in a globalised business environment, it is important that all PSUs continually review their staffing levels and take appropriate measures to balance the size of their workforce. This process will be facilitated if a stable VRS policy providing meaningful financial and other benefits is put in place.

In its Second Report the Commission has recommended that government announce a stable VRS policy with reference to its terms and conditions and provide adequate funds for its implementation by different PSUs. However, in practice, the Commission has come across instances where PSUs who have implemented the VRS scheme have not been able to secure funding support from government.The Commission has elaborated further on this subject as the future of several PSUs and the value of shares sold will change for the better if surplus employees are provided acceptable VRS terms. The following steps are recommended:

1. The terms of VRS should be finalised as early as possible on a stable and long-term basis. Individual management may be given a range within which they may deviate from the prescribed terms for different age groups, different categories of employees and different industrial sectors.
2. Prompt funding should be assured to all PSUs which implement the VRS scheme. The Disinvestment Fund can be used for this purpose as recommended by the Commission in its First Report.

3. The terms and benefits of the VRS scheme should be clearly brought to the attention of the employees through suitable publicity measures.
4. As there is danger of a one-time lumpsum payment being frittered away by the employees or drained out by unscrupulous middlemen, a special scheme may be drawn up through commercial banks, UTI or LIC, wherein the VRS benefits are invested on behalf of individual employees to provide long-term benefits and some measure of social security. To illustrate, the scheme will be able to provide with an investment of about Rs. 2 to 3 lakhs for 10 to 15 years a monthly income of around Rs. 2000 together with annual lump-sum payments for meeting expenses on account of family functions etc. to individual employees. Insurance cover may also be provided to the individuals. This could in fact be structured to become an Employees Pension-cum-Insurance Scheme. Banks and other institutions should be persuaded to open special branches, if necessary, at the locations of the undertakings to service the scheme.
5. In the absence of an effective VRS particularly in loss-making or marginally profit-making undertakings, an unfortunate and inevitable consequence will be an increasing sickness of the PSU with a progressively increasing burden on the budget and eventual closure leading to unemployment of the entire workforce in the process. An effective VRS scheme can ensure long term

productive employment for a substantial number of residual employees in a going concern. It will also fetch better prices for shares sold by the government.

Even after the receiving various suggestions by the different commissions, the government still remains very inactive. The government claims that there is not even single retrenchment after the disinvestments or privatization, but one can put a question whether there is any parallel sector where our labour force (out from the public sector) will find a job. It is evident that there are very few jobs available in the market. More then 60% of the Indian population is depending on agriculture. Our service sector is very small and industry is really in a very bad shape. In this condition, hire and fire VRS may reduce the cost of the enterprises but it will again create other problems. *The Economic Times* stated that dozens of PSUs owned by the central government are so thoroughly bankrupt that far from taking profits and declaring dividends they are unable to even pay salaries and other statutory dues like provident fund and gratuity. Their total outstanding now adds up to a scandalous Rs. 2000 crore. In fact one-forth of the central PSUs are now in arrears. Most employees have not been paid for months, even years.[55] In an interview M.K. Pandhe, General Secretary, CITU stated:

> I agree that the trade union movement has not been as powerful as it ought to be. The division within the ranks of the trade union movement has weakend the workers struggle against privatization. The picture is like this -whenever the movement is strong, we are able to

[55] *The Economic Times*, 15 August, 2002.

> stop the drift towards privatization; but whenever it is weak, the government has been successful.[56]

The Hindu stated that the fact remains that privatization has not increased employment over the short term. In a country that has mounting unemployment problem, this should be a cause of concern.[57] Naib also claimed in his study saying that one can not ignore this fact that in India, the most important impact of privatization is on the labour. A study by Naib claimes that employment levels dropped after divestiture.[58] As post-liberalization pressure increased on public enterprises a number of them restored to VRS. Drop in employment in 25 enterprises out of 38 surveyed, is statistically significant. In other 13 enterprises also the drop is not statistically proved.

Because in most of the Indian PEs technology is labour intensive so the labour issue will be one of the deciding issues in Indian divetiture. M.K. pandhe stated:

> Twenty-seven unions in the industry met in Mumbai recently and decided to launch industrial action if the units were privatized. The Parliament will have to amend the laws that govern these PEs. The government tried to push through the move without even amending the legal provisions.[59]

There are also some consensus developing on this issue in other political parties. CITU general secretary has confidence that they will fight the battle on labour very seriously. He stated:

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56 *Frontline*, op. cit. No. 51, pp 8–9.

57 *The Hindu*, July 15, 2002.

58 Sudhir Naib, *Economic and Political Weekly*, July 19,2003, p. 3093.

59 *Frontline*, op. cit. No. 51, pp. 8–9.

> Manmohan Singh says that profitable PSEs should not be privatized. The Congress (I) did not take this stand earlier. The struggle against the privatization of National Aluminium Corporation (NALCO) has continued far longer and has achived some results. This is because the unity among the trade unions has been stronger. The Indian Trade Union Congress (INTUC) is fully involved in the struggle. There is also the possibility of nation-wide support for the NALCO workers. The BALCO workers could not sustain the long struggle against the takeover by Sterlite. The divison within the ranks of the trade union movements has weakend the workers' struggle against privatization.[60]

Without a healthy labour policy India will not perform well in the field of privatization. In recent years it was acknowledged by the economists and the social thinkers that without labour support, privatization will not achieve success. Even the pioneer of privatization, England, is facing great reactions against privatization. As stated by Stiglitz in Britain and European Union it was seen that trade unions have a great link with political parties to advance the democratic process. In Britain, Labour Party was largely a creation of the trade union movement which has had until recently a major influence on the policies that the party has pursued.[61] In India after a major decision to sell the number of Pes by India government, trade unions were not supported by the political parties. Even the Bhartiya Mazdoor Shangh (BMS), a part of the Bharatiya Janta Party (BJP), was not supported by its political group in the BJP rulled period till 15th May 2004. Most of the decisions taken by the government are against the BMS. So far, All India Trade Union Congress (AITUC) also

[60] Ibid, pp. 8-9.

[61] Joseph E. Stiglitz and Driffill John, *Economics*, W.W. Nortan & Company, New York, 2001, p. 338.

was not getting enough support from its political party, the Congress (I). Without a political movement and a proper support it may be a nightmare for Indian labour to benefit from privatization because Indian trade unions are continuously losing the bargaining power with the government in the past few years.

6.5.2.3 *Restructuring*

A recent report by FICCI states that the idea of restructuring before privatization is desirable because it would, by exploiting any efficiency that can be implemented, improve the proceeds that the government can secure from privatization. The best restructuring may materialize from the actions of the private investors who would have the incentive to restructure in order to improve returns from these enterprises.[62] Without improving the structure of SOEs it is difficult to think for a better quality production. As stated by Kalirajan the empirical studies show that most public enterprises have not been achieving the maximum possible output, which means that a huge amount of resources are being wasted. In China more SOEs have been increasingly moving towards achieving the maximum possible output due to the Chinese enterprises reforms in which the basic objective is not 'privatization' but 'hardening' the budget constraints rather than embarking on disinvestments or privatization immediately.[63] However, it is a sad part of Indian SOEs

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62 *Disinvestment of PSUs: The Road Ahead*, FICCI, New Delhi, p. 17.

63 Hardening the budget constraints for PEs means the cut in subsidy; strict administered price, costly credit availability. See K.P. Kalirajan., Aho. S. and Ric Shand for more detail in *Economic Liberalization in South Asia*, Macmillian, India, 1999, p. 359.

reform, where pace of privatization is faster than hardening the budget. DC also said:

> Where appropriate, PSUs should be restructured before disinvestment in order to enhance enterprise value and intrinsic share value. This should be done by balancing the potential benefits to be achieved vis a vis the costs and time of restructuring. The three broad areas of restructuring would be corporate governance, business and technological restructuring.[64]

However after the recommendation by the DC, only three or four PEs were considered for the restructuring. The NDA government simply wanted to finish the sale process of many PEs. The *Economic Times* stated that in fact, close to 70% of the country's fiscal deficit is now accounted for by the revenue deficit. This indicates that a large part of the government's routine expenditure is being met not from current receipts like tax revenues and user charges, but from privatization proceeds, external assistance and borrowing. In effect, we are liquidating family silver to meet our daily expenses. This is an invitation to disaster. Unfortunatly, while privatization itself has been widely debated, the related issue of how privatization proceeds is to

[64] Recommendations in respect of corporate governance apply to all PSUs and are dealt with in detail in succeeding paragraphs. In some cases, it may be necessary to restructure businesses in order to provide a focus on the core competency of the PSU. Business restructuring will involve hiving off businesses, which are no longer attractive from the viewpoint of returns or are a drag on the other profitable operations. In addition business restructuring will also encompass workforce restructuring and financial restructuring of the balance sheet. Technology upgradation will be an important factor for PSUs, which operate in industries where access to latest technology is a key success factor. Restructuring could also involve de-mergers and mergers with other PSUs. It could also include exchange of technology between PSUs to strengthen synergy in operations. Recommendations on business and technological restructuring will be specific to each PSU and will be covered under specific recommendations DCR, op. cit. no. 5, p. 34.

be utilized has not received much attention. The fact remains that governments do not have resources for balancing the budget and controlling fiscal deficit. PSUs would be restructured to ensure that they are in the best possible shape ahead of privatization.[65] After the commitment by the Finance Minister to use the sell-off money to restructure the PEs, it has not been taken seriously because of the failure of the disinvestments target and the least concern of the government regarding restructuring. Without a proper restructuring programme it will difficult for India to manage the competitiveness of major PEs, which has some global importance.

6.5.2.4 *Regulation and Efficiency*

While there may be no consensus on disinvestments, in case of proper regulation, governments are not concerned about the long-run motives. If we see the situation in telecommunication, Sam Pitroda said in an interview in 2002, that we lost five years of development in confusion. The National Telecom Policy (NTP), formulated about 10 years ago, was not clear, transparent and consistent. The Telecom Regulatory Authority of India (TRAI), is not truly independent.[66] Recently, Tata Energy Research Institute (TERI) has stated:

> The process of regulatory reform will need to evolve over time, and there are several challenges along the way. These include the need to build the financial strength of the utility sectors in India, at the same time as protecting customers. The high incidence of poverty and the

[65] See various issue of *The Economic Times*, 3 June 2002, 1 Sept. 2000 and 17 May 2002, New Delhi.

[66] An Interview with Sam Pitroda (Ex-Telecom Commission Chairman), *The Economic Times*, 17 Feb., 2002.

> widespread low income levels make it all the more important to improve the present low levels of efficiency so as to keep any price increase to a minimum. Attracting more widespread political support will be helpful.[67]

The Hindu also stated with some dissatisfaction of the current positions of regulation saying that lack of regulation in many sectors of infrastructure, such as mining of scarce natural resources, have made it imperative for the government to retain sizable equity in public sector enterprises. It would be imperative that appropriate regulation is formulated for such sectors and independent regulators are appointed without any delay, so that overexploitation of scarce natural resources is prevented.[68] *The Economic Times* stated in 2002 that we now have some seven years of regulation experience. There have been four regulatory legislations at the Centre and in the states. Thus those who drafted the Bill had the opportunity to learn from history, avoid the mistakes made earlier and adopt the good practices contained in earlier legislation. The opportunity has been lost and some of the provisions in the Bill are retrograde. One can only hope that the situation can be retrieved between a minister committed to reform and a sagacious select committee. [69]

As stated earlier, selling PEs without any long-run purpose may invite a disaster. Bangladesh is an appropriate example in this context where a large number of privatization happened without any

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67 See the foreword by Leena Srivastava and Sarkar. S.K, (Ed.) *Transition to a Liberalized Environment: Experiences and Issues in Regulation*, TERI, New Delhi, 2000.

68 *The Hindu*, July 15, 2002.

69 *The Economic Times*, 31 July, 2002.

regulator and a long-run policy. India needs independent regulation to tackle efficiency in many areas, which was mentioned in this section. *The Economic Times* states that independent regulator is a substitute for government regulation. It would not be necessary if our government systems were open with information, transparent in its working and took decisions after widespread consultation with all concerned parties, was consistent in its decision so that applicants knew what to expect from them.[70] Independent regulatory environment is an essential pre-condition for the privatization in India like some other developing and developed countries. The regulatory and promotion roles performed by different government agencies can be simplified.

Gouri stated that productive efficiency under privatization is based on the evidence that private firms attempt to minimize cost. Allocative efficiency, on the other hand, is dependent on competition making. Efficiency requires a blend of competition and ownership transfer.[71] It can be possible if the strong regulatory practice persist in the economy.

The poor performance and the inefficient condition of PSEs are deeply related with the fact that most of the units are under utilized. Indian Public Enterprises need a balanced regulatory approach to face the global challenge.

70 *The Economic Times*, 22 July, 2002.

71 Geeta Gouri, Privatization and Public Sector Enterprises in India: Analysis of Impact of a Non- Policy, *Economic and Political Weekly*, Nov 30, 1996, p. M67.

6.5.2.5 *Political Support*

A study by the World Bank evaluates the change in the post-reform period in India. It states that India did not experience regime change or coalition realignment. Moreover, neither the governing party nor any other major party in India had a support base that favoured SOE reform. An economic crisis might have altered this picture, but India did not experience a sharp economic crisis in the 1980s that would have led any of these constituent groups to reverse their opposition to SOEs. In India, the SOE sector remained as important in the support base of the new governments as it was in the previous ones.[72]

On this question of political support, George Rosen argued that in India, the term 'privatization' generally means allowing private firms to enter areas that have been government monopolies. The actual sale of SOEs to private owners has not been a significant option. This in part reflects the fact that the Indian governments and political parties are socialist.[73] It is true that the government presence is still strong in many areas. Out of 232 enterprises, 199 are still in the government's hand as can be seen in Table 6.8.

[72] *Bureaucrats in Business: The Economics and Politics of Government Ownership* (published by the World Bank), Oxford University Press, New york, 1995, p. 184.

[73] *George Rosen, Economic Development in Asia*, Ashgate, Aldershot, 1998, p. 159.

Table 6.8

Government Presence in Different Sector

Sector	*No. of Companies*
Manufacturing	
Petroleum	11
Fertilizers	8
Chemicals and Pharma	21
Metals and Minerals	10
Coal and Lignite	9
Steel	7
Engineering	37
Transport equipment	12
Others	37
Services	
Trade and Marketing	18
Industrial and Tech. Services	13
Construction	9
Financial Services	7

Source: Economic Times Intelligence Group (ETIG) as cited in ET 500, *The Economic Times*, March 2002, p.12.

Control and autonomy cannot work together in the present world. It can only create confusion in the economy. Indian economy is the best example of this confusion. The confusion of some ministers in the National Democratic Alliance (NDA) government can be the best presentation in this context. The HPCL and BPCL disinvestment process and the postponement of the 7th September (2002) Cabinet Committee Meeting on Disinvestment gives a clear picture of Indian government's political confusion. Certainly, autonomy in various senses is not only important in the present context but also a deciding factor for our success in the globe. The Disinvestment Commission mentions about the freedom of PEs in terms of corporate governance and the autonomy from its first report. It stated:

> Recent international studies have clearly established that a majority of investors attach considerable importance to the quality of Corporate Governance in a company and are even willing to pay a premium for better-managed companies. In order to enhance intrinsic share value, it is recommended that the PSUs should be restructured in terms of corporate governance prior to disinvestment. It is expected that with disinvestment, the shareholding of the Government will decline steadily. Hence there is need to establish systems and procedures in PSUs to promote the interests of minority shareholders and also enhance long term enterprise value.[74]

Reforming public sector enterprises by trimming employment, slashing wages, imposing hard budget constraints, closing plants, providing ailing firms with exit options, and tackling education, agriculture, and infrastructure will impinge on India's masses and therefore will require a broad political consensus, unlike the first wave of reform, which required limited popular awareness. Still the slim increase in foreign investment engendered a backlash by a range of highly mobilized interests. A well-publicized example of how reform can be politically contested when it is not institutionally secure occurred in 1996, when the new government in Maharashtra was reluctant to accept a deal with Enron that had been consummated by the previous state government. Needing foreign investment, the

[74] DCR, op. cit. No. 5.

government had introduced liberal economic reform but bypassed necessary institutions or procedures (in this case, tender procedures) to ensure transparent, predictable, and accountable outcomes.[75]

It may be seen that very few SOEs had a greater private ownership till 1999. Out of 39 PEs, 29 PEs had more than 80% of government ownership. Rest of them had more than 20% private ownership. It shows that there was no great change in ownership and in the basic structure of SOEs. In the last few years, government has consistently failed to meet its ambitious disinvestment targets, and is expected to do so this year 2004 too. The Finance Minister while presenting the Union Budget for 2002–03 said:

> We hope to raise Rs. 12,000 crore from disinvestment next year. With the streamlined procedure for disinvestment and privatization, I am happy to report that the Government has now completed strategic sales in 7 public sector companies and some hotel properties of the Hotel Corporation of India (HCI) and the India Tourism Development Corporation (ITDC). The change in approach from the disinvestments of small lots of shares to strategic sales of blocks of shares to strategic investors has improved the price-earning ratios obtained. We expect to complete the disinvestment in another six companies and the remaining hotels in HCI and ITDC this year. Disinvestment receipts for the present year are estimated at Rs. 5,000 crore excluding the special dividend from VSNL of Rs 1,887 crore. Encouraged by these results, I am once again taking credit for a receipt of Rs. 12,000 crore from disinvestment next year.[76]

[75] Hoover. Stanford, op. cit. No. 47.

[76] *http://in.biz.yahoo.com/budget2002.html.*

On the basis of the Finance Minister's speech we can say that privatization is taking impetus in India. In the last ten years governments (central as well as states) have developed a confidence to think and act from divestiture to privatization. However a study by NCEAR claims that such disinvestments do not create any incentives for greater autonomy. However, a bulk of the sectors have not shown any significant change in competition levels also.[77] In the coming years in which government is very conscious to sell some of the PSEs, the NCAER's report must be treated carefully. So far many of the recommendation of committees set up by the government still awaits implementation since government doesn't take any quick initiative in this regard. From the DC's First Report, the idea of 'strategic sale' was on priority[78]. DC's Report (No. 8) has also strongly stressed on this priority. In view of the present state of the Indian and overseas capital markets, offerings in these markets may not achieve optimum realization. The Commission, therefore, suggests giving a big push to strategic sales of PSUs recommended by the Commission. At the present juncture, the advantages of such a big push operation for strategic sales are many.[79] However one can't ignore that such big

[77] *Economic and Policy Reform In India*, NCAER, August, 2001, pp. 137–142.

[78] A strategic sale alternative for select PSUs may involve selling a substantial stake with management control or a minority stake supplemented by technology transfer arrangements. The joint venture route could also be an alternative in some special cases. In all these cases, the original shareholding of the government could be diluted either by negotiation with joint venture partners or by shortlisting partners through the process of auction. Necessary guidelines for selection of partners/buyers is given later in this report. As cited in DCR, op. cit No. 5 p. 49.

[79] Since strategic sales depend not on capital market conditions but on the intrinsic value of the concerned enterprises, they can be undertaken straightaway. The response to the offer of strategic sales will send the right signals about the confidence of the international community in the Indian economy. This will also

push sale without a long term vision and planning may also minimize the benefits of privatization, particularly in a developing country, where proper precautions are taken by the government.

6.6 LESSONS FROM BANGLADESH EXPERIENCE

There are certain lessons India can take from the divestiture experience in Bangladesh. Bangladesh has not succeeded much because divestiture policy was an outcome of the sudden change on the political and economic front. It has been extensively discussed in the previous chapters that Bangladesh has a poor level playing field for divestiture, especially, in terms of enterprenures, stock markets, pre-divestiture restructuring and foreign investment. Without a proper discussion and consensus among the stakeholders, Bangladesh moved for an extensive divestiture. The irony of divestiture becomes more acute when Bangladesh moved from divestiture to complete sale of SOEs (named as privatization). Theoretically, privatization was easier for decision makers than divestiture but the way Bangladesh did the privatization practice, was not fit for the country's long-term future. Because of this situation divestiture was not well planned and well conceived.

stimulate foreign direct investment in India. Substantial amounts of foreign exchange can be earned to strengthen our foreign exchange reserves. Successful strategic sales will boost the confidence of the Foreign Institutional Investors and induce their increasing support to the Indian capital market. This will also encourage domestic investors. Even the GDR market is likely to pick up as a result of successful strategic sales. Disinvestment Commission Report, No. 8, p. 3, as cited in www.divest.nic.in/report.

In India privatization has taken momentum since 1999. Till 1999, the Government of India had put priority to divestiture only. It is true that the NDA government's policy of privatization was just a step ahead of divestiture. But one can observe that the shift in policy from divestiture to privatization was more or less similar to Bangladesh and other countries where the failure in divestiture is always treated as prelude to privatization. Proponents of privatization have the logic of structural adjustment reforms, behind the shift from divestiture to privatization. As the shift from divestiture to privatization was in practice in NDA regime in India, Indian policy makers should take lessons from Bangladesh. The post divestiture experiences were very much depressing in many instances in India similar to the experiences of Bangladesh. The differences in the opinion about the benefits of divestiture are in the discussion between the government and the critiques of privatization. Disinvestment Ministry always come out with the positive results of privatization. In this context the ministry stated about the post-privatization results in Modern Food Industry (MFI) which is treated to be positive, since the number of workers and profit of the MFI has increased compared to the pre privatization period.

However many researchers have given a negative picture of Indian divestiture. A recent study by Naib has pointed out many decimal facts of the post-divestiture period. Naib claimed:

> Of the 38 divested enterprises, six recorded losses in the 1990s. There are many other enterprises that recorded dips in profitability vis-a-vis previous years starting from 1992–93 onwards. Assets turnover declined for the full sample as well as for competitive and monopoly

enterprises. Employment levels dropped following divestiture, as expected for the full sample.[80]

There are few positive indications about the post-divestiture experiences. Naib claimed that the dividend payout increased for the full sample. However, liquidity has also dropped in 25 divested enterprises but it has improved in 13 divested enterprises.[81] One more study by Anshuman (based on the TCS' acquisition of (CMC) suggested that under dual-priced offer, all strategic sales of assets to private parties resulted in a transfer of wealth from the majority shareholders to the minority shareholders. This situation was likely to be exacerbated in illiquid (low float) stocks where price manipulations were easy to achieve. Using the disinvestments of CMC (acquired by TCS) as an example, the proceed raised by the government could have been increased by 6 per cent, if not more, based on the revision to the takeover code suggested in his study.[82] Raghavan also stated that past experience with disinvestments shows that there was a tendency to undervalue the shares of PEs in order to avoid the negative impact of failed offer and to gradually consolidate the demand for subsequent offers. But the partial success in previous offers was due to others factors e.g., restricted clientele and a large amount stipulated for minimum bid.[83]

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80 Naib Sudhir, "Partial Divestiture and Performance of Indian Public Sector Enterprises", *EPW*, July 19, 2003, pp 3092–93. (Hindustan Photofilms Mfg Co since 1992-93, HMT since 1993-94, ITI since 1994-95, Hindustan Cables since 1995-96, Hindustan Copper since 1996-97 and SAIL from 1998-99).

81 Ibid, pp 3092-93.

82 Ravi V. Anshuman, Disinvesment of PSUs: Leaving Money on the Table?, *EPW*, March 8, 2003, pp. 954.

83 Raghvan op. cit. No. 22, p. 120.

This study has presented quite a similar picture for Bangladesh. Privatization practice in Bangladesh has pointed to the implication that, if India will failed in linking up divestiture with the survival of enterprises, then the de-industrialization of the economy could lead a more acute disaster than Bangladesh. In terms of size, number of employment, contribution to GDP and export, Indian SOEs are much larger than those in Bangladesh. Bangladesh's policy makers are quite prompt in formulating fast reform policies but it was very slow in linking SOEs reforms with other economic reforms like banking, Stock market, labour restructuring and utilities sector reforms. Government officials and entrepreneurs in Bangladesh involved in privatization are inefficient, slow and not accountable. It was also seen that, hidden or unforeseeable costs, liabilities and the valuation of the SOEs discouraged SOE reforms.

In a landmark judgment, upholding the sale of public sector aluminum giant, Balco to Sterlite, the Supreme Court has held that the Court would not interfere on 'valuation' unless there is some grave irregularity that is brought to its notice. The ruling is bound to be music to the ears of a beleaguered government. The Court has chastised the Chattisgarh state government for raking up a controversy which did not exist, in its opinion. In its opinion none existed. It has come down heavily on the tendency to file public interest litigation on frivolous grounds. It has given a clean chit to the government in the Balco sell-off, ruling that it was done in a transparent manner, shares being offloaded to the highest bidder. Best of all, the court has emphatically stated that it is not for the court to go into the merits of the government's economic policies. These, it has rightly argued, come within the domain of the Parliament. Since the Indian parliament is more interested to talk this issue for the post-privatization period rather to discuss it before privatization, judicial system should take interest to see the corrupt practices involved in it. Governments should also take special precautions in the process of further privatization.

A Few years back the absence of the Chairman of Privatization Commission in Bangladesh has delayed the privatization process. Apart from this, the indifference of the interests of the potential buyers and the condition of the concerned SOE did much damage to newly privatized enterprises in Bangladesh. This can be seen in 'Bangladesh Biman' and some other manufacturing enterprises. In this connection the lessons from Bangladesh is of significance. In India too, the case of Air India and also some important sale of core sector PSUs has established a clear picture of delays. These delays have also some impact on the privatization of other SOEs.

The process of migration of divestiture to privatization in Bangladesh, initiated under the Industrial Policy 1986, was ideal for privatization of sensitive SOEs, but it involved the risk of prolonging inefficient management during the transition period. Most of the divested enterprises were fully privatized without any restructuring plan. India is also facing the similar situation where restructuring process is very slow, since the government has decided to restructure only three or four PEs. At the managerial level, it was seen that inefficient atmosphere is prolonging which may lead some risk on the way to privatization. Experienced and informed buyers to revitalize a sick SOE are less likely to convert the enterprises into alternative uses in Bangladesh (see the study by Sen and the different experiences by the researcher in Chapter 4). In India too, where the number of sick units are very high, there remains such danger to not converting enterprises into alternative uses can be possible in India. Many sick fertilizer industries in India are the most appropriate examples in this regard. Fertilizer factories at Barauni and Sindri had to be closed down without any alternative and restructuring reform since they did not opt for conversion for the alternative uses. Experiences from Bangladesh suggest that if privatization can be well planned and well conceived by the economy then it will be a rewarding deal. Bangladesh is failed in getting the rewarding deal from privatization. Indian PEs are in a very good position in terms of market capitalization. ONGC's performance was on the top of 2003. In last two years also it has performed almost on the top. See it in the table 6.9.

Table 6.9

Market Capitalization of Top Companies

Company	*Mkt-cap Ranking (3rd April 2002)*	*Ranking*	*Market-cap (17 Sept. 2001)*	*Ranking*
ONGC	49,287	1	17,681	4
HLL	47,975	2	41,338	1
Wipro	38,025	3	25,242	3
Reliance	31,454	4	27,582	2
Infosys	23,332	5	17,353	5
IOC	17,228	6	8,721	8
ITC	16,892	7	15,280	6
Reliance Petro	13,498	8	13,680	7
SBI	12,139	9	8,247	9
Ranbaxy	10,346	10	6,588	12
HPCL	10,059	11	3,260	26
BPCL	9,708	12	3,705	22
MTNL	9,538	13	6,539	13
DRL	8,647	14	6,806	11
HDFC	8,057	15	7,455	10

Source: *Economic Times*, 4 April, 2002, New Delhi (Rs. Crore)

The current status of Indian PEs are many ways better than Bangladesh PEs. As a late starter of privatization, India has an advantage to take lessons from Bangladesh and many other countries.

6.7 CONCLUSION

SOEs have a great role since the independence in India. It had contributed a lot not only in terms of job creation, but in terms of production also. India, which was an import- based economy, became a self-sustained economy in many areas. But due to certain reasons as was discussed in this chapter; SOEs performance slackened by various factors. Losses and the survival of these SOEs became the main question for the policy makers. In the age of economic reforms it was very much difficult to continue old policies. Most of the socialist economy also changed old policies of depending on the state and not on the market. In the era of globalization, the role of government is changing very fast. In these circumstances 'privatization' became a rational exercise. However in this exercise, every government has to minimize the social cost of privatization. Recently this exercise has taken a new impetus from the government and other institutions like the judiciary.

In the ongoing process of privatization the duty of the government is to balance the public and private players. The government should try to act in a very transparent way and to plan properly. In India, the clear-cut shift from partial disinvestment of PEs to final sale of PEs was obvious in the NDA regime. A Few years back the DC stated that the PEs in India continue to be an important component of Indian industry even after liberalization unlike the experience in many other countries, which went in for wholesale privatization. However this statement was completely forgotten by the Disinvestment Ministry under the leadership of NDA governement. This ministry has forgotten various recommendations and advises of the Commission.

At every level, Indian disinvestment and privatization has deleted the line set by the DC. Unfortunately, the existence of the new DC seems to have been forgotten. Indian politicians are still more worried about nasty politics and less worried for the real problems of labour restructuring and efficiency, which is crucial if India has to take the lead in the coming age. PEs are still waiting for more autonomy. Privatization in India has taken the same path which other developed countries took in the last 20 years. The way we started the big ticket privatization may balance our current budget expenditure but may not protect us in the long run to fight, the most crucial problem of Indian economy viz. 'unemployment'. Developed countries have a major financial support from their own resources. A capitalist economy can easily support privatization because they have a sound investment system, rich infrastructure, good governance, and a sound financial institution. Whereas countries like India and Bangladesh are lacking on many fronts. privatization in India is not properly linked with many other reforms like infrastructure, Banking, insurance, Stock market, State Owned Utilities etc. The success of disinvestment depends how successfully we are opening new sectors of investment for private players. Moreover, the fractured Indian politicians are also a major challenge for privatization. Various chambers of commerce and industry are also split. Answering to the question: 'Should government exit from PSUs fully?' FICCI answered 'no, hanging on is good politics' whereas CII answered that 'yes, get the best price and exit'.[84] At the trade union front, we also saw a different temperament. Different unions have differing moods. Even

[84] An interview with Sugato Hazra, Secretary, FICCI and Omkar Goswami, CE, CII, *The Economic Times*, 14 June, 2002.

within the NDA government, ministers were not thinking in the same direction. The fall of the NDA government and the new political environment in the country has started new debate on privatization. Left parties have favoured the closure of the disinvestment ministry. Now in the present scenario, even after the many political logjam any government can not stop at least partial privatization, since the divestiture is already excepted and practiced in last 10–12 years in India. Unity in diversity is a characteristic of India but in case of Indian privatization we can see very less commitment from the stakeholders. Taking lessons from Bangladesh, which has failed in many areas and proved successful in some, India can carefully tread the journey of privatization.

Chapter 7

CONCLUSION

Bangladesh's socio-economic environment is unfavourable for privatization. Before liberation, 'East Pakistan' under the Pakistan and 'East Bengal' under the colonial regime were very poor in terms of entrepreneurship, infrastructure and human development compared to West Pakistan and West Bengal respectively. Nationalization of enterprises (left by the Pakistani owners) was started under a very different set of circumstances. It was at a time when the country had to nationalize many small manufacturing units like cinema halls, rice, flour and edible oil mills also. Such practices demonstrated the entrepreneurial inability of a new nation. Just after independence, it was difficult to restart the process of economic development. Management of SOEs became problematic very soon. It was very early for Bangladesh to start divestiture. If one can compare India and Bangladesh on the issue of the gap between nationalization to privatization, Bangladesh is a case of early divestiture. In India, divestiture of SOEs was an exercise started after 40 years of independence, where in Bangladesh it was only after four years of independence. Ultimately, Bangladesh became one of the fastest examples of divestiture in the world with a very limited choice. But the divestiture exercise of SOEs has so far not given many positive result in terms of increased profit maximization as well as welfare maximization. The privatization experience of Bangladesh is incomparable to other countries. We have tried to test various hypothesis in the entire field dependent and field independent study. We have also tested the interrelations of this hypothesis with the established privatization theories.

The following hypothesis were posed:

1. Transparency, fairness, well developed capital market, broad range of approaches are essential conditions for a successful privatization programme. (H-1)
2. Pre-privatization restructuring reform with a well functioning legal apparatus is essential for the success of privatization. (H-2)
3. Entrepreneurship development in a strong socio-political environment is necessary for providing a proper support base to the agenda of privatization. (H-3)

First chapter provided the general introduction on privatization around the world. The second chapter concluded that privatization should not be a way to transfer a public monopoly to a private monopoly. Choosing a proper methodology of privatization is an important issue, which should be discussed prior to privatization. No uniform method of privatization will work for different industries in different countries. The suitability of a method depends on the regulatory practice and fulfillment of the pre-requisites of privatization and the broader socio-political environment. Similar to other economic policies, privatization also needs both internal and external support base. Political support not only for the short run benefits but also for the long run benefits can decide the capability of a country in the age of competition.

The second chapter also attempts to find out the role of the government's regulatory mechanism, which is very critical in developing economies because the conditions of enterprises are more critical before and after privatization compared to developed countries. While considering direct and indirect divestiture methods, policy makers should not quickly shift from one policy to the other, but they should choose a method after a proper evaluation of the pre-requisites of privatization. It was observed that in most of the transition economies divestiture was very fast but in terms of getting benefits it was very slow. Privatization practice should be for the credible privatization, which is only possible if privatization practice is transparent and government is keen to promote competition.

Chapter three provided the nationalization process of the enterprises, different issues and practical problems of nationalization in relation to the SOEs in Bangladesh. It examined historically the factor underlying the poor performance of nationalized enterprises. Bangladesh's SOEs have been in trouble not only since the country's liberation, but from the beginning of the colonial industrialization in South Asian region. This region had primarily a traders' economy. In this kind of an economy, there is always a lack of entrepreneurial support from the industrialists. Bangladesh's First Five-Year Plan and the first industrial policy tried to provide a wider industrial base through nationalization of enterprises. But political unrest in the post-Mujib's period (post-1975) was quite challenging to sustain those socialistic policies. Bangladesh's nationalization was a case of pseudo- nationalization. It was seen that while government was keen to nationalize a large number of enterprises after independence but by that time it was also seen that more then 100 enterprises also divested quickly just after the nationalization. Nationalization worked with divestiture since beginning itself.

Problems of the SOEs in the post-independence era in Bangladesh are also discussed here. In this context the industrial and economic policies of Bangladesh has been surveyed. The survey provides many insights. It has been seen from the beginning that the public enterprises were burdened with the overexpectations of stakeholders in terms of employment and wage bill. This led to the loss-incurring situation in SOEs. The industrial policies were extreme in nature. The industrial policy of 1971 was very much public sector oriented. The government's macro-economic policy changed just after the assassination of Mujib in 1975. Since 1975, we notice a steady shift in Bangladesh's industrial policy from one extreme to another. Government of Bangladesh (GOB) never tried for a greater public–private mix.

The basic aim of the military regime was to create a situation in which they can take more authoritative decisions. Mujib's policies of nationalization have suffered a lot because of this ambition. Divestiture was deliberately forced in Bangladesh in the military regime. The process of restructuring before divestiture was a lesser concern for the policy makers. Divestiture was not a well-discussed democratic decision in Bangladesh, like in India.

In a very dramatic political and economic situation, Bangladesh started a wide range of divestiture programmes in the post-Mujib era. But one cannot ignore this fact that just after five years of independence the country did not have adequate administrative capacity for sudden reforms. The difference of nationalization policy between Bangladesh and India is that whereas in India it was a decision taken by the industrialists (Bombay Plan, 1944), which was considered by the government, in Bangladesh it was a decision of the followers of Mujib who were basically academicians like Nurul Islam and Rahman Sobhan. This is not to imply that academicians were not able to take a wise decision, but that decisions were less practical and more theoretical.

Due to the country's political unrest and the poor performance of the economy, very few outside investors have taken interest even after the government's shift from nationalization to divestiture. India had a proper entrepreneurial support base with regard to their own industrialist. Bangladesh had very little support in this regard. In this situation, dependency on aid became a permanent feature of the Bangladesh economy. Bangladesh became an aid laboratory for donors in 1980s. A poor economic base, less number of the industrialist, weak political support and enormous expectations from the public enterprises, created an unhealthy environment in Bangladesh. It won't be wrong to say that due to such environment, Bangladesh started a new wave of reforms in which divestiture/ privatization of SOEs has taken an impetus.

Chapter four dealt the performance of the SOEs after divestiture and the relevant issues in privatization. Five case studies of privatized enterprises in Dhaka and Tejpur also presented an unhealthy picture. In case of Dhaka Vegetable Oil Industries (DVOI) and Eagle Box Carton Manufacturing Company Limited (EBC), ownership went into the hand of corrupt managers. These practices are quite opposite to the process of corporatization. In case of Pretax Group too, one can see that even after a significant improvement in profits, the ownership went into the hand of a politician. The chairman of this group Mr. M.A. Hashen, Member of Parliament, is a politician not a corporate man. In KCL a large number of workers were retrenched. Pertax Group has taken interest in product diversification and also in international trade but other firms were more interested in the local business. The motive of privatized KCL is just to meet the demand of the middle class consumer of Bangladesh, not to capture in the international market. CCCGCL is a strong case of the successful privatization. However, critics have also challenged this success on the ground that the data on profitability was miscalculated. It was also said that the increase in demand is because of the heavy construction work in the post-privatization period of CCCGCL. In most of the cases the shift from government to private players was not practiced.

The study establishes the fact that the internal support like legal system, restructuring, socio-political support, transparency, fairness were not provided by the Bangladesh government. The irresponsible practice of the government has disrupted the country to achieve the promised benefit of privatization. H-1 stands proved here. Because of this fact the relation theory of efficiency with the time-factor is not found in Bangladesh. Selling nationalized enterprises should not only be the last duty of the government but the survival of those enterprises is more important task for the government, especially in the coming years.

Government favouritism or protectionism is a genuine drawback for divestiture in Bangladesh. Such favouritism or protectionism is done by the state in the process of privatization in Bangladesh. Because of that, the World Bank has repeatedly questioned potential of these enterprises. Privatization experts like Savas raised an important question as to who were allowed to buy the SOEs. In Bangladesh, that question *is* very interesting. Most of the owners of privatized enterprises are far away from the entrepreneurial responsibility.

Closure of many privatized jute-textile mills indicates the government's failure to manage privatization. Ultimately, the question for survival of enterprises in Bangladesh is now imperative. The study of privatization in Bangladesh showed that Bangladesh provide transparency, fairness, a strong political support, and, is unable to undertake related structural reforms, and restructuring. Because of a very small class of entrepreneur and a very low level of foreign investment, the space vacated by the state is still empty. Many SOEs-related issues, which were crucial at the time of nationalization, became more critical after privatization. The policy of divestiture or privatization was not pre-planned like the policy of nationalization. Bangladesh needs credible privatization. In the present situation free trade has become the catchword of globalization. Investment has also become globalized. The role of the state is very critical and important at this juncture. The GOB has recently recognized this critical role.

Direct divestiture as a methodology of privatization did not support the promised objectives of privatization. Sale of SOEs through competitive bidding is currently in practice. Because of a weak capital market it is not easy for the government to manage the privatization process through the bulk sale of shares through stock markets. Apart from divestiture, one can also see the practice of the some other methods of privatization. Employee Owned Stock

Programme (ESOPs) has also been practiced in State Owned Jute Enterprises (SOJEs). Even after commitment towards ESOPs under Industrial Policy 1999, very small success has been admitted yet. The government of Bangladesh has also started indirect divestiture methodology through the Build Operate Own (BOO) and Build Operate Transfer (BOT) in state owned utilities. But a strong regulatory practice is an essential condition for the success of this methodology. The study on telecom privatization shows that the regulatory practice in Bangladesh's telecom sector is quite unsatisfactory and thus not enough benefits have been attained for the subscribers.

In the current wave of globalization, Bangladesh has to work on a new methodology of privatization, which can suit the country over a long period of time. The rationale of privatization should not be only to divest or privatize SOEs, but also to make sure of the survival of the enterprises after privatization. The question of privatization is no more the question of a theoretical discourse but one of a practical application. In a discussion the Privatization Commission Chairman of Bangladesh stated that presently the main priority of privatization was on the manufacturing sector, while State Owned Utilities could be considered at the second stage. But Bangladesh first needs a fast privatization approach in utilities where state is really unable to do much. Only the fast development of utilities can give a wider base for industry as well as services and other business activities. Electricity, telecommunication, gas, water and road are some areas where Bangladesh really needs an effective regulatory mechanism. These sectors need an aggressive managerial change and freedom of the enterprise to operate like a private firm, even if ownership of assets is not fully transferred. Management contracts, lease and some other partial privatization methods can strengthen the utility sector, which can lead Bangladesh in future. In a situation where the capital markets and the domestic private sectors are weak, where regulatory practices are facing problems every day, and the privatization environment is totally out of control, a greater private–public mix through partial privatization and strong restructuring activities before and after privatization has become an urgent need. The past results of privatization in Bangladesh only say that we may be free in formulating policies of privatization but getting benefits from privatization is more demanding. In principle, Bangladesh became a leader of privatization in terms of the number of privatized enterprises, but in terms of the realizing the actual benefits in practice, Bangladesh remains far behind.

Chapter fifth dealt the currently started privatization process of telecom sector in India as well as in Bangladesh. This chapter tried to present the critical and comparative picture of telecom sector. The positive aspects of these reforms are highlighted and some recommendations are also presented at the end of this chapter.

In this ongoing 'contracting out' practice, the real challenge for the telecom privatization in Bangladesh appears to be the formulation of a long-term policy, where the maximum numbers of people are covered. Currently in Bangladesh 90% of the mobile users are in Dhaka alone. The low level of coverage builds up a case for urgent reforms in Bangladesh. It was found that reforms are unable to stop the monopolistic practices in Bangladesh.

At the regulatory level, both India, as well as Bangladesh, have established independent regulatory commissions. While in Bangladesh, regulatory commission was established only in 2003, in India it was establishment in 1996. That is why the telecom reform in Bangladesh is not properly regulated in comparison to India. Commenting on the regulatory practice in India, BTRC chairman stated that India to be the best example of regulation in the world.

Telecom sector is still one of the most important sources of revenue for the Government of Bangladesh. Because of this fact, Government of Bangladesh does not want to fully privatize this sector. Owing to the agreement with WTO, an important question that will have to be addressed early is how best to restructure and privatize BTTB, BSNL and MTNL. In India, such type of exercise has been started and the regulatory commitment is also in practice but because of the very new regulatory body in Bangladesh it will take time to speed up reforms. It has been found that the telecom sector strategy was highly inward looking from a development point of view, being driven much more by revenue considerations and protection objectives than effective sector development objectives in Bangladesh. But the Indian position is stronger than Bangladesh, because the consumer and entrepreneur base is more wide in India. It will not be surprising to note that the potential subscribers base in India is not only highest in South Asia but in the world, because in China the cellular/mobile growth is close to the stagnation. Indian private players have a special advantage in comparison to a country like Bangladesh. In this advantageous position India has a clear-cut benefit in privatizing this sector, but the same does not hold true in case of Bangladesh, where government's telecom policy is still far from implementation and in the absence of a proper regulation, —middlemen such as the owner of Public Call Office (PCOs)—are taking undue advantage, while consumers have to suffer a lot.

In the telecom sector where a different type of privatization has started through the contracting out method, a visionary step is essential to fillup the rural–urban gap in India as well as in Bangladesh. Indian telecom privatization is more competition-oriented. Bangladesh can take some lessons from India, where a large number of players have resulted in a competitive atmosphere. Due to this competition, for example, mobile call rates have been reduced by 70%, and tele-density is approaching the level of five. In India, private telecom operators should take some lessons from Grameen Phone, which has started rural employment generation through the VPs. TRAI should encourage some private players in the rural area where the tele-density is still very low. Balancing digital divide is a major task for India as well as Bangladesh. Any privatization policy has to work on different fronts to counter this issue. Low call charges are the essential requirements to increase the tele-density in both economies. It can only be possible if BTRC and TRAI try for a more competitive tele-market.

Bangladesh has to take some lessons in terms of legislation to regulate the telecom sector. In India the Telecom Dispute Settlement and Appellate Tribunal (TDSAT) is functioning, whereas in Bangladesh, the BTRC chairman is totally opposed to such a tribunal. However, in any democracy without such type of special tribunal it will be an injustice to the common people as well as the common service provider. The reform specially has to reach the common people. Ultimately it's the duty of the government to see how players are providing services. Privatization of telecom sector in Bangladesh is facing the problem of 'temporal distance'[1]. This temporal distance is wide in India too. The success of telecom privatization depends how successfully this distance will be narrowed in the coming years, where government is not able to choose the players or sometimes unable to decide, how to formulate the policies to stop monopolistic practice.

Chapter six dealt the past experience of SOEs and present issues in Indian privatization. It highlights the gap between disinvestment targets and achievements, Disinvestment Commission's (DC) recommendations and the steps taken by the Disinvestments Ministry. It also presents the various issues involved in the Indian divestiture and lessons from the experiences of Bangladesh.

It has been observed that in India, the clear-cut shift from partial disinvestment of PEs to final sale of PEs was obvious in the Natopma; Democratic Alliance (NDA) regime. A few years back DC stated that the PEs in India continue to be an important component of Indian industry even after liberalization unlike the experience in many other

[1] Measured most simply as the length of time since the date equity was first transferred to the effective ownership and control of private investors from the state.

countries, which went in for wholesale privatization. But this statement was completely forgotten by the Disinvestments Ministry. This ministry had forgotten various recommendations and advises of the commission. At many levels, Indian disinvestment and privatization has not followed the line by the DC. Unfortunately, the existence of the new DC also seems to have been forgotten.

This chapter shows that the Government of India is unable to meet the disinvestment targets. Many privatized enterprises are incurring losses. The valuation process of SOEs is not transparent, change in ownership is not satisfactory, and it is a danger for the survival of the enterprises in the long run as in case of Bangladesh. Indian politicians are still more worried about nasty politics and less worried for the real problems of labour restructuring and efficiency, which is crucial if India has to take the lead in the coming age. PEs are still waiting for more autonomy. Privatization in India has taken the same path which other developed countries have taken in the last 20 years. The way India started the big ticket privatization may balance the country's budget expenditure but may not protect its citizens in the long run, to fight the most crucial problem of Indian economy, viz. 'unemployment'. Developed countries have a major financial support from their own resources. A capitalist economy can easily support privatization because they have a very sound investment system, rich infrastructure, good governance, and a sound financial institution, but developing countries such as like India and Bangladesh are lacking these prerequisites.

In terms of size, number of employment, contribution to GDP and export, Indian SOEs are manifold larger than those in Bangladesh. Privatization practice in Bangladesh has pointed to the implication that, if India fails in linking up divestiture with the survival of enterprises, then the de-industrialization of the economy could prove more acute disaster than in case of Bangladesh. Taking lessons from Bangladesh, India should try to attract more investment in utilities sector through global bidding and contracting out system. Utilities sector is the proper support base for industrial and service sector growth. While Bangladesh's policy makers have been quite prompt in formulating fast reform policies, they have been very slow in linking SOEs reforms with other economic reforms like banking, stock market, labour restructuring and utilities sector reforms. Government officials and entrepreneurs involved in privatization are inefficient, slow and not accountable in Bangladesh. It was also seen that, hidden or unforeseeable costs, liabilities and the valuation of the SOEs discouraged SOE reforms in Bangladesh.

We also found the interrelation of these hypothesis with the established privatization theories. Privatization experiences in Bangladesh in the study pointed out that more than 40% of the privatized enterprises have been closed down, 10% are making profit and rest of them are incurring losses, in 60% of the cases enterprises have been transferred to the same owner or his relatives and in 70% of the cases there were no alternative activities after privatization.[2] The result of privatization shows that even after a long gestation period, the impact of privatization has been more negative than positive in case of Bangladesh. Results from divested industries show that lack of capital, debt burden, and lack of interest of owners in production are the main problems. The restructuring activities are

[2] See the experiences of 205 divested industries during the period 1979–1995 and also 13 privatized enterprises during the period 1991–96 in chapter 4.

not widely practiced. The legal system is quite supportive for those people who had always taken interest to make privatization work for their own benefit instead of making it for the overall economy. Results supported H-2. High level of corrupt practices has delimited the benefits of privatization in Bangladesh. The country's rigidity towards reforms is still a main hurdle for privatization. This can be seen in telecom and other state-owned utilities sector. The past experiences in Bangladesh established the fact that government was more keen to divest enterprises, without entrepreneurship development in a weak socio political environment. Results support H-3.

Privatization practice is easy as well as tough. If the motive of the government is just to sell out SOEs, then it is an easy task, but if government thinks to link divestiture to the country's other socio-economic reform, then it is a difficult task for the government.

Privatization is a subject of new investment by the private players. In the transition economies like Bangladesh the question of new investment is very challenging. The future of privatization lies in the activities, which can boost trade and the employment generation. It can be possible if related economic reforms support the agenda of privatization.

The idea of divestiture has shifted to privatization in many sectors in India. Strong reactions from the pressure groups like trade union and political parties have created a situation where India can take a balanced path of privatization. India is a late starter of Privatization, so it is a good time to take lessons from countries like Bangladesh which started disinvestments much before India.

Privatization can't work out properly without a level playing field. This hypothesis was correct in the case of Bangladesh. The lesson, that corrupt privatization practices are not going to help the agenda of privatization is the most important for India. It is true that the current divestiture experiences in India are also not satisfactory. Divested enterprises are incurring losses. India had also tried for a big shift from divestiture to privatization. Without considering the restructuring exercises and implementing many recommendations by Disinvestemt Commission, India has planned for the further sale of the SOEs. The donor institution's role is quite clear in the privatization reform. Privatization is more guided by the donor agencies in Bangladesh. If a country's policy is not internally discussed, then very little is achieved. The privatization was not properly debated, even till this date there is not clear-cut policy regarding, the basis on which SOEs will be divested or privatized. It is also not very much clear as to which SOE should be privatized. India should try to internally discuss the methodology of privatization. It is be hoped that privatization practice in India is planned more carefully. Most of the developed as well as developing nations are now in a position to complete the privatization of a large number of SOEs. India is in an advantageous position as it can take lessons from such nations.

In short, privatization in Bangladesh has a very few success stories. The country's state-owned jute-textile enterprises, the industrial identity of Bangladesh, are in jeopardy. Dying jute and textile industry is the saddest part of privatization in Bangladesh. While poor privatization practice has lead to the decline of traditional industries of Bangladesh, it has not started any fast moves towards modern industrial development. In the world's most densely-populated nation Bangladesh and the second most-populous India, the biggest question is the survival and growth of enterprises where labour can find a job. While it is true that only nationalized enterprises are not enough to answer this question, the private sector is also unable to survive in the present economic climate in Bangladesh. Issues like the wide entrepreneurial gap, labour, regulation, improper valuation, lack of restructuring and corruption are some of the major constraints in Bangladesh. These issues are more or less applicable to India also.

In a quite unfavourable situation for direct divestiture, it is an important time to formulate and practice a five-year divestiture plan about how to disinvest and what to disinvest. Policy makers should always keep in mind the demographic realities of both nations—Bangladesh as well as India. In the entire fieldwork to Bangladesh and India, the common man is raising just two questions—where is the job and who will save the entrepreneurs from the corruption?

Bangladesh stands one of the most corrupt nations in the world; India too is involved in such practices. Both, the citizens of Bangladesh as well as India, expect only these two issues to be sorted out availability of job and end of corruption.

The empirical models and patterns from the study of Bangladesh's SOEs are quite contrary to the privatization theory. Privatized enterprises have suffered a lot in terms of efficiency, profit generation and the welfare maximization. 'Privatization' as a theory is different from 'privatization' as in practice.

ANNEXURES

Annexure I

PRIVATIZATION PRACTICE IN BANGLADESH

1.1 METHODS OF PRIVATIZATION

1.1.1 Sale by International Tender

Local and foreign buyers may participate in all such tenders. Association of workers, employees and officers of the tendered enterprise may also offer bid for purchase of the enterprise.

1.1.2 Sale by Public Offer of Shares

Government-Owned shares in different companies and shares of the SOEs converted into public limited companies may be sold to the general public either directly or through the stock exchange.

1.2 PREPARATION OF SOEs FOR PRIVATIZATION

Before inviting tender for sale of the identified SOEs, valuations of the assets and liabilities are made by Chartered Accountant (C.A) firms or by the consultants engaged by the Commission. Valuation reports are examined and reviewed by the Privatization Commission and a re-valuation can be made by another C.A. firm/valuer firm if considered necessary. Tenders are invited after the finalization of the valuation. Valuation and other relevent documents are made available to the prospective bidders before submission of the bids.

1.3 TENDER PROCEDURES

In the case of sale of enterprise, the prospective buyers will submit quotation according to the terms and conditions of the tender. Bidder shall have to accept all long-term loans against the fixed assets.

Value of stocks and stores will be adjusted with the short-term bank liabilities and the buyer will accept the bank loan equivalent to the value of stocks and stores. If the value of stocks and stores exceeds the bank loans, the excess will be payable to the Government by the buyer either in cash or within one year along with a simple interest of 10% per annum. Bank loans in excess of the value of stocks and stores will be taken over by the Government.

Value of current assets such as sundry debtors, advances etc. will be payable to the Government by the buyer either in cash or within one year along with a simple interest rate of 10% per annum.

In the cases mentioned above the buyer will have to provide irrevocable bank guarantee without recourse in case the payment is not made in cash.

Short-term liabilities such as, sundry creditors, claims of employees and workers and income taxes etc. accrued before the transfer of the enterprise will be taken over by the Government.

As regards employees of the tendered enterprise (if it is a running one) the Corporation and the buyer will jointly determine the number of redundant employees in the light of technical and operational feasibility. Retained employees, however, will be offered new terms and conditions by the buyer.

Buyers will be liable to pursue all pending court cases.

Land under the enterprise will be used normally for establishment and expansion of industries. A substantial amount of unutilized but developed land can, however, be used for other productive activities.

In case of sale of Government-owned shares in different companies the prospective buyers will submit quotations for the total number of shares offered for sale. The company whose shares are offered for sale, will repay all quasi-equity loans of the Government and dues of the Corporations witiin a period of 10 years in 6-monthly installment carrying a simple interest of 10% per annum and will submit an irrevocable bank guarantee without recourse from a scheduled bank. In addition to the above, the buyer will also give a personal irrevocable bank guarantee without recourse for the above quasi-equity loans and dues or will keep the share certificates of all the shares bought by him, under the custody of the Government.

While implementing the policy of privatization, efforts will be made to make the ownership of the industrial enterprises as broad-based, as possible.

1.4 PAYMENT PROCEDURE

In case of sale of Government-owned shares in limited companies, the bidder will have to pay 20% of the bid amount as earnest money. The successful bidder will have to pay the balance 80% of the bid amount within 60 days of issue of Letter of Intent.

In case of sale of enterprise, the bidder will have to pay 2.5% of the bid amount as earnest money. The successful bidder will have to the pay in cash an additional amount of 22.5% of the bid amount as down payment within 30 days of the issue of Letter of Intent (i,e, 2.5%+22.5%=25%). The bidder will have to pay the balance 75% of the bid amount within 5 years at 6-monthly installment along with a compound interest rate of 9% annually and will also give irrevocable bank guarantee without recourse for the installment payment. A rebate of 15% will be allowed if the full payment is made within 30 days of issue of Letter of Intent.

In case of sale of enterprise to association of workers,employees and officers, all claims and liabilities with the enterprise may be adjusted with the bid amount.

The buyer will take over all long term loans and will have to negotiate repayment agreement with the lender institutions before transfer of the enterprise.

1.5 TENDER NOTICE

International tenders in the prescribed forms are hereby invited from local and foreign buyers (Individual, Company, Co-Operative Body, Employees' Association) for sale of the following enterprises owned by the government on as is where is basis and also for the sale of the state owned shares of the following enterprises. Intending buyers will have to submit prescribed tender forms and other required papers duly filled in and supported by necessary documents for the enterprises.

A. Name of the Enterprise for Sale

1. Peoples Jute Mills Ltd., Khalishpur, Khulna
2. Eastern Jute Mills Ltd., Atra, Khulna
3. Ahmed Bawany Textile Mills Ltd., Demra, Dhaka
4. Service Facilities Centern (SFC), Sirajganj
5. Service Facilities Centern (SFC), Bramhanbaria
6. Service Facilities Centern (SFC), Tangail (Only Machinary and Equipment will be sold out)
7. Bangladesh Diesel Plant, Joydebpur, Gazipur
8. Dhaka Leather Company Ltd., Nayarhat, Dhaka
9. Fish Export Ltd., Balua, Khulna

1.6 CONDITIONS

(i) Tender form and other related papers can be procured from the Secretary on all working days till 29 September, 2002 during office hours on cash payment of Tk. 5,000/- (Taka Five Thousand only) or US$ 125 (One Hundred Twenty Five) only which is non-refundable.

(ii) After the publication of this tender notice, interested foreigners, Bangladeshi citizens living abroad, overseas commercial firms etc, willing to procure the tender forms may contact Bangladesh High Commissions/Embassies in London, Washington, Brussels, Kuala Lumpur, Riyadh, Abu Dhabi, Islamabad, New Delhi, Tokyo, Singapore and Seoul.

(iii) A rebate of 20% on the total sale price (quoted price) will be granted if the buyer pays off the 75% of the sale price within 30 days of the issuing of Letter of Intent. Similarly, a rebate of 35% on the total sale price (quoted price) will be allowed if the buyer pays off the total amount of sale price at a time within 30 days of issuing of the Letter of Intent (LOI).

(iv) An additional rebate of 5% on the total sale price will be granted if the buyer pays off the price in freely convertible foreign currency.

(v) Tender must be dropped by 12.00 noon on 30 September, 2002 in the tender boxes kept at the office of the Privatization Commission, Jiban Bima Tower (14th Floor), 10, Dilkusha C/A, Dhaka-1000, Bangladesh and at the office of the Federation of Bangladesh Chamber of Commerce and Industry, Federation Bhaban, 60 Motijheel C/A, Dhaka-1000, Bangladesh respectively.

(vi) The tender box will be closed at 12-00 noon on 30 September, 2002 and will be opened at 2:00 p.m. on the same date in presence of tenders (if any).

(vii) Tenders found incomplete or otherwise faulty shall stand cancelled.

(viii) The Privatization Commission reserves the right to accept or reject any or all tenders without assigning any reason whatsover.

Source: Privatization Commission, 2003, Dhaka, Bangladesh.

Annexure II

INSTITUTIONAL FRAMEWORK OF PRIVATIZATION IN BANGLADESH

The Privatization Commission which came into being in March, 1993 is entrusted with the overall responsibility of privatizing State-Owned Enterprises identified for privatization, whether small, large, profitable or non-profitable. The Commission is now headed by a chairman with the rank and status of a State Minister to the Government. The Commission consists of two full-time members and twelve part time members including six Members of Parliament. The Commission has been placed under the administrative jurisdiction of the Cabinet Division which is headed by the Hon'ble Prime Minister. The Commission reports directly to the Cabinet Committee on Economic Affairs which is chaired by the Hon'ble Minister of Finance. Ministries having SOEs under their control have either set up or in the process of setting up Privatization Cells for assisting the Privatization Commission in identifying, preparing, processing, implementing and monitoring SOEs for privatization.

Source: *Privatization Commission, 2003, Dhaka, Bangladesh.*

Annexure III

PROJECT UNDER THE GOVERNMENT CONSIDERATION IN BANGLADESH

Some recently completed and ongoing projects include setting up a new sugar mill and installation of spindles in 10 textile mills, which should not have been initiated in the public sector. The investment program also includes a number of BMRE projects -- in fertilizer, pulp, paper and newsprint, cement, jute and textiles. While BMR is generally not a low priority activity, in the context of the stated policy that manufacturing enterprises should be divested, it is prudent to leave BMR decisions to future private owners, rather than the SOEs taking the risk of a possible wrong decision. BMR activities should be limited to just those which are critical for continued operation, provided these are undertaken within the context of a privatization strategy and a clear commitment to divest. It may be noted that BMRE projects are being initiated even for SOEs, which have been included in the privatization program for FY98. Given the uncertainty about prospective private owners' future plans regarding the continuation of existing lines of production and possibility of restructuring, BMR decisions by SOEs could turn out to be wasteful.

Proposed New Projects The major concern now is that about 15 new industrial projects, including some large ones, are being initiated or planned in the public sector. The list includes three new large fertilizer plants -- Shahjalal Fertilizer Factory (costing $242 million), a urea fertilizer factory in the Northern/Southern part ($386 million) and Di-Ammonium Phosphate Plant at CUFL ($70 million) -- and one paper plant at Sylhet Paper and Pulp Mill ($19 million). Three large BMRE projects -- BMRE of Chhatak Cement Factory ($37 million), BMRE of Karnaphuli Paper Mill

(KPM) ($79 million) and BMRE of Carew and Company Sugar Mill ($8 million) -- are also being initiated. Fertilizer Sub-Sector Additional investment could be warranted in the fertilizer sub-sector, as urea requirements are expected to expand with crop sector growth in the foreseeable future. However, such investments should be carried out by the private sector. The incentive regime in the fertilizer sector is distorted because of administered underpricing, with ex-factory prices being less than half the world market prices, and an embargo on exports (except by KAFCO), which will no doubt discourage foreign investment in the sector. Unless these policy distortions are addressed and an environment conducive to private investment is established, domestic production capacity could lag behind fertilizer requirements, leading to possible shortage and import dependence.

Export Processing Zones The recent enactment of a Private Sector EPZ Act (PSEPZA) is a welcome development since it provides the legal basis for private sector participation. Following this enactment a Korean company has expressed interest in setting up a private EPZ in Chittagong. At the same time three new public sector EPZs are being initiated in Gazipur, Mongla and North Bengal, while the extension of the Dhaka EPZ is planned. A concern is that increasing public sector involvement in setting up new EPZs is likely to send a conflicting signal to prospective private investors and could lead to a crowding out effect. GOB should scale down public sector investment and instead focus on improving the business environment in order to attract FDI for private EPZ development. It should be noted that efforts by the Government to speed up infrastructure development and facilitate land acquisition by the private sector are likely to have much greater economy-wide impact on industrialization than developing EPZs under the public sector.

BSCIC Estates Industrial estates have been set up by BSCIC with ADP funding for many years but the experience has been mixed. Some estates have been seriously underutilized for many years, because of diverse factors, including inappropriate location, but the unused plots have not been reallotted to other entrepreneurs. Another questionable aspect of the estate allotment policy has been the provision of industrial land at subsidized prices below the market rate. Such public policy is neither necessary for promoting small scale industries nor desirable because of disincentives for private sector participation. Public sector involvement should no longer be necessary for the development of such estates. This activity can now be left to the private sector and BSCIC's role should be limited just to promotional services. There is every reason to prefer the private sector to develop industrial estates and parks, particularly with active cooperation of public sector agencies providing utilities and infrastructure facilities, if this is a viable investment proposal. One large project with questionable rationale for public sector involvement is a proposed Dhaka World Trade Center project, costing $122 million. This project appears in the TYRIP, which shows commencement of implementation in FY98 but the project does not yet appear in the FY98 ADP. Strong reservations had been expressed earlier about this "prestige" project, which, being a business activity should be left for the private sector.

(Bangladesh Public Expenditure Review 1997, www.worldbank_Bangladesh.org)

Annexure IV

SECTORS AND LIST OF SOEs TO BE PRIVATIZED IN BANGLADESH

(i) Jute Sector
(ii) Textile Sector
(iii) Steel, Engg. and Miscellaneous Sector
(iv) Sugar and Food Sector
(v) Chemical Sector
(vi) Power Sector
(vii) Natural Gas and Oil Exploration
(viii) Tele Communication
(ix) Transport Sector
(x) Port and Container Handling
(xi) Aviation and Tourism
(xii) Banking and Insurance

I. Jute Sector-25

(1) Rajshahi Jute Mills Ltd, Shyampur, Rajshahi;
(2) Jessore Jute Industries Ltd, Jessore;
(3) Aleem Jute Mills Ltd, Khulna;
(4) Latif Bawany Jute Mills Ltd, Dhaka;
(5) Star Jute Mills Ltd, Chandani Mahal, Khulna;
(6) R.R. Jute Mills Ltd, Chittagong;
(7) Eastern Jute Mills Ltd, Khulna;
(8) Gul Ahmed Jute Mills Ltd, Chittagong;

(9) Hafiz Jute Mills Ltd, Chittagong;
(10) Karnafuli Jute Mills Ltd, Chittagong;
(11) Nishat Jute Mills Ltd, Tongi, Gazipur;
(12) Daulatpur Jute Mills Ltd, Khulna;
(13) Crescent Jute Mills Ltd, Khulna;
(14) M.M. Jute Mills Ltd, Chittagong;
(15) Amin Jute Mills Ltd, Shola Shahar, Chittagong;
(16) Amin Old Field, Shola Shahar, Chittagong;
(17) Peoples Jute Mills Ltd, Khalishpur, Khulna;
(18) Quami Jute Mills Ltd, Sirajganj;
(19) UMC Jute Mills Ltd, Narsingdi;
(20) Plutinum Jute Mills Ltd, Khulna;
(21) Carpetting Jute Mills Ltd, Noapara, Jessore;
(22) Nabarun Jute Mills Ltd., Narayanganj;
(23) Monwar Jute Mills Ltd., Narayanganj;
(24) Bawa Jute Mills Ltd, Narayanganj;
(25) Mymensingh Jute Mills Ltd, Mymensingh;

II. Textile Sector-22

(26) Tangail Cotton Mills Ltd, Gorai, Tangail;
(27) Kariline Silk Mills Ltd, Foujderhat, Chittagong;
(28) Engineering Industries Ltd, Tongi, Gazipur;
(29) Ahmed Bawany Textile Mills Ltd, Demra, Dhaka;
(30) Chittaranjan Cotton Mills Ltd, Godnayl, Narayanganj;
(31) Luxminarayan Cotton Mills Ltd, Godnayl, Narayanganj;
(32) RR Textile Mills Ltd, Chittagong;
(33) Amin Textile Mills Ltd, Shola Shahar, Chittagong;
(34) Darwani Textile Mills Ltd, Darwani, Nilphamari;
(35) Olympia Textile Mills, Tongi, Gazipur;

(36) Zeenath Textile Mills Ltd, Tongi, Gazipur;
(37) Monno Textile Mills, Tongi, Gazipur;
(38) Fine Cotton Mills, Tongi, Gazipuir;
(39) Satrang Textile Mills, Tongi, Gazipur;
(40) Kokil Textile Mills, Brammanbaria;
(41) Meghna Textile, Tongi, Gazipur;
(42) National Cotton Mills, Foujderhat, Chittagong;
(43) Kurigram Textile Mills, Kurigram;
(44) Magura Textile Mills, Magura;
(45) Noakhali Textile Mills Ltd, Laxmipur;
(46) Bangladesh Textile Mills Ltd, Narayanganj;
(47) Chisti Textile Mills Ltd, Comilla;

III. Steel & Engg. & Miscellaneous Sector-27

(48) Chittagong Board Mills, Chittagong;
(49) Eastern Wood Works, Dhaka;
(50) Fidco Furniture Complex, Chittagong;
(51) Khulna Cabinet Manufacturing Unit, Khulna;
(52) Common Finishing Facilities, Dhaka;
(53) Amin Agencies, Chittagong;
(54) Bangladesh Machine Tools Factory, Dhaka;
(55) General Electric Manufacturing Co., Chittagong;
(56) Chittagong Dry Dock, Chittagong;
(57) Bangladesh Diesel Plant, Dhaka;
(58) Bangladesh Blade Factory, Dhaka;
(59) Eastern Tubes, Dhaka;
(60) Khulna Industrial and Trading Company, Khulna;
(61) Prince Iron, Dhaka;
(62) Gazi Wire Ltd, Chittagong;

(63) Chittagong Steel Mill, Chittagong;
(64) Dockyard & Engg Works Ltd, Narayanganj;
(65) Khulna Shipyard, Khulna;
(66) Pragoti Industries, Chittagong;
(67) Bangladesh Oil Mills, Khulna;
(68) Meher Industries, Dhaka;
(69) Bangladesh Can Company Ltd., Chittagong;
(70) Dhaka Steel Works Ltd, Dhaka;
(71) Bangladesh Steel Industries Ltd.;
(72) Dosha Extraction Ltd., Chittagong;
(73) Cornflour Mills Ltd., Narayanganj.;
(74) Ashrafia Oil Mills Ltd., Khulna;

VI. Power Sector

In view of the gradual widening of demand-supply gap, government has recently opened up investment in power generation, transmission and distribution to the private sector. Significant private foreign investment is envisaged for power generation. It may be mentioned here that power Development Board (PDB) has signed initial agreements for setting up Barge-Mounted Power Plants with the following international companies recently:

(1) Smith Co-generation International - 100 MW
(2) New England Power Company - 100 MW
(3) Wartsila Power Development Ltd. - 100 MW
(4) Westmont Offshore - 100 MW

VII. Natural Gas and Oil Exploration

National Petroleum Policy which came into force from July 1993 has already attracted foreign investment in oil and gas exploration and development. Five international oil companies have signed production sharing contracts for exploration and development of hydrocarbon. The five companies are:

(1) Occidental Exploration of Bangladesh Ltd.
(2) Occidental of Bangladesh
(3) Cairn Energy PLC and Holland Sea Search Bangladesh
(4) Rexwood Oakland
(5) United Merridian International Corporation (UMIC)

VIII. Tele Communication

Telecom services used to be provided exclusively by Bangladesh. Telephone and Telegraph Board (BTTB)-a government functionary. The recent revolution in information technology has opened up a new area for private investment in the telecom sector. In the meantime, the following two private companies are operating in rural telecom sector-

(1) Bangladesh Rural Tele Communication Authority
(2) ShebaFor Cellular/Mobile telephone, the following private companies have been allowed to operate:

(1) Pacific Bangladesh Telephone Ltd.
(2) Grameen Telephone
(3) Sheba
(4) Telecom Malaysia International Ltd.

IX. Transport Sector

Recent studies on sectoral reform had identified suitable privatization prospects in both the Road & Highways and in Inland Water Transport. Contracting out the existing operations and maintenance functions of these organizations is an immediate promising possibility. Besides private shipping liners and vessel services are in full operation in the country, having no restrictions whatsoever.

X. Port and Container Handling

There are quite bright prospects of private sector participation in improving port services in Mongla and Chittagong and in handling container services in the ports and other areas. Reforms are in the initial stages and may take sometime before such implementation take place.

XI. Aviation and Tourism

Serious reforms have taken place in the civil aviation sector by allowing operation of private sector airlines in the domestic services. Tourism sector is fully open for the private sector to operate.

XII. Banking and Insurance

At the moment financial sector reform programmes are underway. Private banks and insurance companies with few exceptions are functioning creditably. Uttara, Pubali and Rupali Banks which were formally owned by the GOB were privatized. Shadaran Bima Corporation's (General Insurance) 49% shares are contemplated to be off loaded in the local stock markets soon.

Source: Privatization Commission, 2003, Dhaka, Bangladesh.

Annexure V

OPPORTUNITIES FOR THE FOREIGNERS IN BANGLADESH

The Industrial Policy 1991 and its recently announced amendments, the associated reforms in trade policies and fiscal and taxation policies now augur well for investment by the foreign nationals and companies and also non-resident Bangladeshi nationals. No approval is required for any investment by the foreign investors in any sectors of the economy except for a few areas (strategic ones) which are still reserved for public investment only. The foreign investment (promotion & protection) Act, 1980 guarantees protection to foreign investment against nationalization and also guarantees equitable treatment. Bangladesh is a signatory of Multilateral Investment Guarantee Agency (MIGA) of the World Bank group, Overseas Private Investment Corporation (OPIC) and International Center for Settlement of Investment Disputes (ISCID) and therefore, also gurantees investors protection against political and other risks. Following facilities are also available for foreigners and non-resident Bangladeshis:

(a) Foreign investment with 100% foreign equity holding;

(b) Repatriation of all post tax dividends, capital, and capital gains is permitted fully;

(c) Employment of expatriate technical and professional personnel is allowed;

(d) Remittances of 50% of the salary of foreign nationals employed in local companies is allowed;

(e) Remittances of savings from earnings, retirement benifits, personal assets of individuals employed in recognized industries on retirement/termination of service is allowed;

(f) Foreigners employed in recognized industries are exempted from income taxes for first 3 years;

(g) Multiple entry visas are allowed;

(h) Relief is given from double taxation;

(i) Re-investment of reportable dividends is treated as new investment;

(j) Foreign investors have unhindered access to local banks and financial institutions for obtaining long term loans and working capital loans;

(k) Enterprises with foreign ownership may remain private limited companies. In the case of public limited companies, the public offering of shares is optional;

(l) Foreigners are allowed to invest in shares and securities through stock exchange etc.

Source: *Privatization Commission, 2003, Dhaka, Bangladesh.*

Annexure VI

REGULATORY FRAMEWORK IN TELECOMMUNICATION IN BANGLADESH

The Ministry of Posts and Telecommunications (MOPT) holds the responsibility of sector regulation. The Telegraph Act of 1985 is the primary law governing the sector and granted the government exclusive power to establish and provide all telecommunications services and products. The Wireless Telegraphy Act of 1933 governs the operation of one way Radio Communications, Paging and Radio services. The BTTB Ordinance of 1979 provided BTTB the monopoly rights and powers for issuing license for telecommunications and wireless services. In October, 1995 Government of Bangladesh (GOB) amended the BTTB Ordinance, 1979 and transferred the regulatory authority from BTTB to MOPT. Now MOPT has already formed a regulatory body naming Bangladesh Telecommunication Regulatory Board (BTRC).

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure VII

TELECOMMUNICATION OPERATORS IN BANGLADESH

Name of Operator	*License Granted*	*Function*
Bangladesh Rural Telecom Authority (BRTA)	1989	Establishment, Operation and Maintenance of Digital Telephone Exchanges in 200 Thanas.
Sheba Telecom (Pvt.) Ltd.	1989	Rural Telecom Services in 199 Thanas and Cellular Mobile Radio Telephone Services.
Pacific Bangladesh Telephone Ltd. (PBTL)	1989	Cellular Radio Telephone Services.
Grameen Phone (GP) Consortium	1996	Cellular Mobile Radio Telephone Services.
Telecom Malaysia International Bangladesh (TMIB)	1996	Cellular Mobile Radio Telephone Services.
Bangladesh Telecom (Pvt.) Limited (BTL)	1989	Paging, Radio Trunking and Riverine Telecom services

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure VIII

BASIC TELEPHONY IN BANGLADESH

At the end of 1998-99 fiscal year Bangladesh T & T Board had 631 Telephone Exchanges with a total capacity of 4,74,322 lines. BTTB started operating digital local exchanges after installation of six NEC-NEAX 61E exchanges in the Dhaka Telecom Region Network in 1990-91 fiscal year with initial total capacity of 26,000 lines. Upto 1998-99 financial year fifteen (six NEC-NEAX 61E exchanges, seven ALCATEL E-10 exchanges E-10 exchanges, three GDT exchanges and three ITALTEL exchanges) and seven (One ALCATEL E-10 exchange, two and two ITALTEL exchanges), twelve (nine ALCATEL E-10 exchanges and three ITALTEL exchanges), ten (four ALCATEL ITALTEL exchanges and four ZTE exchanges) local digital exchanges were installed in Dhaka, Chittagong, Khulna and Rajshahi Telecom Regions respectively. Exchange status of Analog and Digital telephone lines are given on Table below.

BTTB Telephone Exchange Status as on 30th June, 1999

Region	*Type*	*Number of Exchanges*	*Capacity*	*Connection*	*Pending Demand*
Dhaka	Analog	24	74,000	70,689	1812
	Digital	15	173,529	169,836	69,430
Chittagong	Analog	31	22,720	18,632	8,542
	Digital	12	71,000	63,435	2,802
Khulna	Analog	36	25,400	22,201	8,962
	Digital	10	26,700	21,347	3,648
Rajshahi	Analog	17	19,400	18,274	5,016
	Digital	07	17,272	12,213	2,980
Country Total	Analog	108	141,520	129,796	75,842
	Digital	44	288,501	266,831	78,860

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure IX
PUBLIC TELEPHONE SERVICES IN BANGLADESH

Years ago Coin Boxes were used in the urban areas and land line wireless Public Call Offices (PCOs) in the rural areas to provide public telephone services. Card Telephones were introduced to wipe off the degraded service quality of Coin Boxes and PCOs. By November 2000 about 1400 Card phone booths were installed in different parts of the country. While all card phones have NWD facilities where as around 750 of them have got ISD facility. Due to higher accessibility and better technology these Card phones have been widely accepted by public throughout the country. Almost all the thanas have been covered by the Card phone service. Programs are under consideration to extend this service to village level.

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure X

TELEPHONE GROWTH AND PENDING DEMAND IN BANGLADESH

Year	Exchange	No. of Exchange	Exchange Capacity	Telephone Connection	Pending Demand
1994-95	Manual	476	32879	26963	12242
	Analog	133	209150	197482	1044945
	Digital	12	72951	62160	37300
	Total	621	314980	286605	154037
1995-96	Manual	479	36664	29765	8242
	Analog	129	179890	161463	57720
	Digital	21	171215	124853	80892
	Total	629	368729	316081	145854
1996-97	Manual	476	39812	32714	14943
	Analog	114	140920	132711	65554
	Digital	35	259759	202592	47041
	Total	625	440491	368017	127438
1997-98	Manual	479	42867	34607	15336
	Analog	112	135040	125627	66078
	Digital	37	284666	252337	54006
	Total	628	462573	412607	135420
1998-99	Manual	479	44301	36341	17394
	Analog	108	141520	129796	75842
	Digital	44	288501	266831	78860
	Total	631	474322	432968	172096
1999-00	Manual	480	48652	40040	23055
	Analog	110	139790	118421	61779
	Digital	54	401557	313314	96691
	Total	644	540046	471775	181525

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure XI

PROGRAM FOR INSTALLATION OF DIGITAL TELEPHONE LINES UNDER BTTB IN BANGLADESH

Sl. No.	*Name of the Program*	*Telephone Exchange Capacity*		
		Replacement	*Expansion*	*Total*
1	2,00,000 Telephone Lines in Dhaka City with Supplier's Credit	-	2,00,000	2,00,000
2	3,00,000 Telephone Lines using Private Entrepreneurship	-	3,00,000	3,00,000
3	67,500 Digital Telephone Lines more under Dhaka Telephone Project-II.	10,000	28,000	38,000
4	2,16,000 Digital Telephone Lines outside Dhaka	50,000	1,16,000	2,16,000

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure XII

MAJOR BACKBONE OF BANGLADESH WITH OUTSIDE WORLD

A Project Concept Paper (PCP) has already been submitted by Ministry of Post and Telecommunication to expand Internet Services and High-Speed Digital Subscriber Line (DSL) Services to all the 64 districts of Bangladesh. An ATM Network between the Divisional Headquarters has also been proposed in this PCP. Transmission links in Bangladesh are presently using star formation with Dhaka at the center of the network. Some of the proposed transmission routes will introduce mesh formation in some areas of backbone transmission network, which will increase the reliability of communication. Some of the old Plesynchronous Digital Hierarchy (PDH) links will be converted to Synchronous Digital Hierarchy (SDH) links.

Source: BTTB, 2002, Dhaka, Bangladesh.

Annexure XIII

VILLAGE PANCHAYAT TELEPHONES (VPT) IN INDIA

Sl. No.	*Unit*	*Total No. of Villages*	*Villages with VPTs as on 1.4.2001*	*Villages uncovered as on 1.4.2001*
1	Andaman & Nicobar	201	197	4
2	Andhra Pradesh	29460	23419	0
3	Assam	24685	17018	7667
4	Bihar	41077	29414	10129
5	Chhattisgarh	19720	14417	340
6	Gujarat	18125	11214	0
7	Haryana	6850	6811	0
8	HimachalPradesh	16925	16380	545
9	Jammu & Kashmir	6764	4072	2692
10	Jharkhand	31703	17073	11985
11	Karnataka	27066	27060	6
12	Kerala	1468	1468	0
13	Madhya Pradesh	51806	37597	4
17	Orissa	46989	35357	11632
18	Punjab	12687	12687	0
19	Rajasthan	39483	23858	0
20	Tamil Nadu	17899	17899	0
21	Uttaranchal	15610	10003	5607
22	U.P.(East)	79792	69314	10478
23	U.P.(West)	23604	21268	0
24	West Bengal	38337	34159	4178
25	Kolkata	437	437	0
26	Delhi	191	191	0
	Total	**607491**	**468016**	**74230**

Source: BSNL, 2003, India.

Note: BSNL VPT Target for 2002-03 has been revised from 69440 to 47439 as on 21.10.2002. 8000 Nos of VPTs are to be provided on satellite in the revised target *during* 2002-03.

Annexure XIV

NETWORK INFRASTRUCTURE-GROWTH BY MTNL IN INDIA

Particulars	*1986*	*2002*
No. of exchanges	114	431
Equipped capacity (Million)	0.88	5.65
Direct Exchange Lines (DELs) (Million)	0.75	4.74
Teledensity (%)		
- Mumbai	-	18.17*
- Delhi	-	15.93*
Public Telephone Booths (Local & Long Distance)	10,593	1,61,230
No. of Stations on long distance	264	19,186
No. of countries connected overseas	11	239
Digitalisation of network		
Network	Nil	100%
* Vis-à-vis all India average of about 3.5%		

Source: MTNL 2003, India

Annexure XV

BASIC SERVICE PROVIDERS REGISTERED WITH TRAI IN INDIA

Sl. No.	*Name of firm*	*Reg no*	*Area*	*Contact Person and Address*
1	Bharti Telenet Limited	S/BS/MP/000001	*MP*	P N Abrol, Advisor Telecom, Bharti Telenet Limited, Qutab Ambience, H-5/12 Mehrauli Road, New Delhi-110030 Ph: 26969427 Fax: 26961327 pna@bhatient.com, sbhatia@bhartient.com
2	Ecl Telecom Limited	S/BS/PB/000002	PB	Sajive Kanwar, Vice President 8 Commercial Complex Masjid Moth, Greater Kailash-Ii New Delhi-110048, Ph: 26412624/ 2634, Fax: 26427355
3	Hughes Ispat Limited	S/BS/MH/000186	Maharastra	Madhav J Joshi, Clo & Company Secy Htra Ispat House B G Kher Marg Worli, Mumbai-400018 Tel:022 24975445 Ext:1217 Fax:022 24605516/17 mjoshi@hil.hns.com

Sl. No.	*Name of firm*	*Reg no*	*Area*	*Contact Person and Address*
4	Tata Teleservices Limited	S/BS/AP/000187	Andhra Pradesh	N Srinath, Chief Operating Officer 5-9-62 Khan Lateef Khan Estate, Fateh Maidan Road, Hyderabad-500001 Tel: 26101010 Extn:4001 Fax: 2212339 srinath@tatatel.co.in
5	Shyam Telelink Limited (Formerly Telelink Network India Ltd)	S/BS/RJ/000185	Rajasthan	T R Duan A-60, Naraina Indl Area Phase-Inew Delhi-110028 Tel:2579 5897 Fax:2579 2194
6	Mahanagar Telephone Nigam Ltd(Mtnl)	S/BS/DL/000245	Delhi	Shri Praveen Sharma, Dgm(Jv) Mtnl, 12th Floor, Jeevan Bharti Bldg, Connaught Circus New Delhi-110001 Tel:3355858 Fax:3328016
7	Mahanagar Telephone Nigam Ltd(Mtnl)	S/BS/MH/000246	Mumbai	Shri Praveen Sharma, Dgm(Jv) Mtnl, 12th Floor, Jeevan Bharti Bldg, Connaught Circus New Delhi-110001 Tel:23355858 Fax:23328016

Source: www.trai.gov.in, website assessed in May 2003.

Annexure XVI

CELLULAR/MOBILE SERVICE PROVIDER REGISTERED WITH TRAI IN INDIA

Sl. No.	*Name of Firm*	*Reg. No.*	*Area*	*Contact Person and Address*
1	Bharti Cellular Limited	S/CM/HP/000003	HP	Col. OP Aurora Gm(Opr), Ph:0177-220257, Fax 0177-220312 pna@bhatient.com, sbhatia@bhartient.com shashi bhatia, Ph:11-26961321, Fax: 26961327
2	Birla At&T	S/CM/MH/000004	MH	Rajan Mathews, President & CEO, Birla AT &T Comm Ltd, Sharada Centre,11/1 Erandwane,Off Karve Road, Pune-4 Ph:212-332001, Fax:212-337309/ 367174
3	Birla AT&T Communications Limited	S/CM/GJ/000005	GJ	Rajan Mathews, President & CEO, Birla At&T Comm Ltd, Sharada Centre,11/1 Erandwane,Off Karve Road, Pune-4 Ph:212-332001, Fax:212-337309/ 367174
4	Aircel Digilink (I)	S/CM/HR/000006	HR	Anand Prakash C-48 Okhla Ind Area Limited(Essar) Phase-II, New Delhi-110020 Ph:6828845/46/47, Fax 6828837/72/74, 6311536

5	Aircel Digilink (I)	S/CM/RJ/000007	Rajasthan	Anand Prakash C-48 Okhla Ind Area Limited(Essar) Phase-II, New Delhi-110020 Ph:6828845/46/47, Fax 6828837/72/74, 6311536
6	Aircel Digilink (I)	S/CM/UE/000008	UP(EAST)	Anand Prakash C-48 Okhla Ind Area Limited(Essar) Phase-II, New Delhi-110020 Ph:6828845/46/47, Fax 6828837/72/74, 6311536
7	Sterling Cellular Limited (Essar)	S/CM/DL/000009	GZD, FBD	Anand Prakash C-48 Okhla Ind Area Noida, Grgn Phase-II, New Delhi- 110020 Ph:6828845/46/47, Fax 6828837/72/74, 6311536
8	Skycell Communica tions Limited	S/CM/TN/000010	Madras	Venkatraman Mahabali Puram, CFO & Co. Secy, Paramount Plaza, 22 Mahatama Gandhi Rd, Maraimal Nungambakkam, Chennai-600 034 Ainagar & Ph:044-8224595, Fax:044- 8224503
9	Tata Communica tions Limited	S/CM/AP/000011	AP	C Bhaskar Gm(Legal) & Secy, 5-9-62, Khan Lateef Khan Estate, Fateh Maidan Road, Hyderabad-500 001 Ph:040-211999, Fax 040-241 286, Mobile:9848002201
10	Escotel Mobile Communica tions Ltd	S/CM/HR/000012	HR	K Vijay Rao, CEO & Exec. Dir, A-36 Mohan Co-Op Ind Estate, Mathura Road, New Delhi-110044, Ph:6959236/64, Fax:6959220/33/53, Vijayrao@Del.Escotel.Rpgms.Ems.Vsnl.Net.In

11	Escotel Mobile Communications Ltd	S/CM/UW/000013	UP (W)	K Vijay Rao, CEO & Exec. Dir, A-36 Mohan Co-Op Ind Estate, Mathura Road, New Delhi-110044, Ph:6959236/64, Fax:6959220/33/53, vijayrao@del.escotel.rpgms.ems. vsnl.net.in
12	Escotel Mobile Communications Ltd	S/CM/KR/000014	Kerala	K Vijay Rao, CEO & Exec. Dir, A-36 Mohan Co-Op Ind Estate, Mathura Road, New Delhi-110044, Ph:6959236/64, Fax:6959220/33/53, vijayrao@del.escotel.rpgms.ems. vsnl.net.in
13	Bharti Cellular Limited	S/CM/DL/000015	Delhi	Narender Gupta (Airtel) Gzd,Fbd,G Company Secretary Rg, Noida D-184, Okhla Ind. Area Phase-I, New Delhi- 110020, Ph:9810098100,6811890, Fax:6810041
14	BPL Mobile Communications Limited	S/CM/MH/000016	Mumbai	C Karuna Karan New Mumbai Vice President & Kalyan 127, Manmala Tank Rd, Taikalwadi, Mahim(W), Mumbai- 400016, Ph:022-4305005, Fax 022-4316460
15	BPL Uswest Cellular Limited	S/CM/MH/000017	MH	Mark S Bell Md,Bpl Uswest Cellular Ltd, Bpl Telecom Centre,54 Richmond Road, Bangalore-560025, Ph:080- 5594911,Fax 080-5594917

16	BPL Uswest Cellular Limited	S/CM/TN/000018	TN	Mark S Bell Md,Bpl Uswest Cellular Ltd, Bpl Telecom Centre,54 Richmond Road, Bangalore-560025, Ph:080- 5594911,Fax 080-5594917
17	BPL Uswest Cellular Limited	S/CM/KR/000019	KR	Mark S Bell Md,Bpl Uswest Cellular Ltd, Bpl Telecom Centre,54 Richmond Road, Bangalore-560025, Ph:080-5594911,Fax 080-5594917
18	RPG Cellular Services Limited	S/CM/TN/000020	Chennai	D R Mehta President 5th Floor Spencer Maraimal Plaza, 769 Anna Salai, Chennai-600002, Ph:044- 8550550/51, Fax:044-8526769
19	RPG Cellcom Limited	S/CM/MP/000021	MP	A P Jain 139-140 Electronic Complex, Pardeshipura, Indore- 452010, Ph:0731- 551301,Fax:0731551304
20	Koshika Telecom Ltd	S/CM/UE/000022	UP (East)	Suresh Sachdev VP-Bus. Dev., Usha House A-41, M.C.I.E, Delhi- Mathura Road, New Delhi-110024, Ph:6959200-9300,6959074 Fax:6959090
21	Koshika Telecom Ltd	S/CM/UW/000023	UP (West)	Suresh Sachdev VP-Bus. Dev., Usha House A-41, M.C.I.E, Delhi- Mathura Road, New Delhi-110024, Ph:6959200-9300,6959074 Fax:6959090
22	Koshika Telecom Ltd	S/CM/BR/000024	Bihar	Suresh Sachdev VP-Bus. Dev., Usha House A-41, M.C.I.E, Delhi- Mathura Road, New Delhi-110024, Ph:6959200-9300,6959074 Fax:6959090

23	Koshika Telecom Ltd	S/CM/OR/000025	Orissa	Suresh Sachdev Vp-Bus. Dev., Usha House A-41, M.C.I.E, Delhi- Mathura Road, New Delhi-110024, Ph:6959200-9300,6959074 Fax:6959090
24	Hexacom India Limited (Oasis)	S/CM/RJ/000026	Rajasthan WG CDR	A K Giri, GM (Projects), Hexacom India East Limited, C- 30, Lajpat Marg, C-Scheme, Jaipur-302001, Ph:141- 374471/72, Fax:0141374473/375088
25	Hexacom India Limited (Oasis)	S/CM/NE/000027	North WG	A K Giri, GM (Projects), Hexacom India East Limited, C- 30, Lajpat Marg, C-Scheme, Jaipur-302001, Ph:141-374471/72, Fax:0141374473/375088
26	Spice Communications Limited (Formerly Modicom Network Ltd)	S/CM/KT/000028	Karnataka	Dilip Modi Director, Spice Communications Limited 13th Floor Hemkunt Tower, 98 Nehru Place, New Delhi-110019, Ph:6434544, Fax:6444221
27	Spice Communications Limited (Formerly Modicom Network Ltd)	S/CM/PB/000029	Punjab	Dilip Modi Director, Spice Communications Limited 13th Floor Hemkunt Tower, 98 Nehru Place, New Delhi-110019, Ph:6434544, Fax:6444221

28	Evergrowth Telecom Limited (Jt Mobile Ltd)	S/CM/PB/000030	Punjab	Dr Priyadarshan Jakatdar Coo, Ph:0172-223150, Fax:0172-222300
29	Fascel Limited (Celforce)	S/CM/GJ/000031	Gujarat	V Srinivasz, Company Secy, Fascel Limited, 6th Floor, Ellisbridge, Ahmedabad - 380006, Ph:079- 6577228/29, Fax:6575990, E-Mail: celforce@ad1.vsnl.net.in
30	Usha Martin Telekom Limited (Command Call)	S/CM/WB/000032	Calcutta	Major Genl Sharad Gupta(Retd) MD Distt Tl: 011-2477123, 2803709 sharadgupta@giasc101.vsnl.net. in and Gautam Ghosh, GM (Bus. Dev.), Ph:033-9830098300, Fax:033-9830098241
31	Hutchison Max Telecom Limited (Max Touch)	S/CM/MH/000033	Mumbai	V K Sapra, Dy. GM, 20a Ring Road,Lajpat Nagar-IV, New Delhi-110024, Ph:6235129/7300, Fax:6218486
32	Aircel Limited (Formerly Srinivas Cellcom Aircel Ltd)	S/CM/TN/000188	Tamilnadu	Mr. K V P Baskaran 4th Floor, Siv Towers,Avinashi Rd Coimbatore Tel: 0422 217517/ 218907(Fax)
33	Spice CEL Ltd. Metro	S/CM/WB/000189	Calcutta	Shankar Halder Spice Cel Ltd., 1st Floor White House 119 Park Street Calcutta-16 #9831098273033-357-5926

34	Bharti Mobile Limited	S/CM/KT/000190	Karnataka	G Gopalan Gm-Technical Bharti Mobile Ltd No.47 Millers Tank Bund Road Bangalore-560052, #80-3439131/2/5 Fax:80-439080 gopalan@jtmkal.gnblr.globalnet.ems.vsnl.net.in
35	Bharti Mobile Limited	S/CM/AP/000191	Andhra Pradesh	Ravi Raju GM-Technicalbharti Mobile Ltdno.47 Millers Tank Bund Road Bangalore-560052#40-4735656/5757 Fax:40-5761 raviraju@jtmap1.gnblr.globalnet.ems.vsnl.net.in

Source: *www.trai.gov.in*, website assessed in May 2003.

Annexure XVII

INTERNATIONAL LONG DISTANCE SERVICE PROVIDER REGISTERED WITH TRAI IN INDIA

Sl. No	*Name Of Firm*	*Reg No*	*Area*	*Contact Person And Address*
1	Videsh Sanchar Nigam Limited	S/II/AI/000247	All India	Amitabh Kumar Director (O) V.S.N.L Videsh Sanchar Bhavan Mg Road Mumbai-400 001 Tel: 022-2624020 Fax:022-2624466 amitabh@giasbm01.vsnl.net.in

Source: www.trai.gov.in , website assessed in May 2003.

Annexure XVIII

TELECOM REGULATORY AUTHORITY OF INDIA

NOTIFICATION NEW DELHI, THE 16TH DAY OF JANUARY, 2004

No.301-4/2004 (Econ.)

In exercise of the powers conferred upon it under sub-section (2) of the section 11 of the Telecom Regulatory Authority of India Act, 1997 as amended by TRAI (Amendment) Act, 2000, the Telecom Regulatory Authority of India (TRAI) hereby makes the following order by an amendment to the Telecommunication Tariff Order, 1999 by notification in the Official Gazette, in respect of tariffs at which Telecommunication services within India and outside India shall be provided.

The Telecommunication Tariff (Thirtieth Amendment) Order, 2004 (2 of 2004)

Section I

1. Short title, extent and commencement:

    (i) This Order shall be called "The Telecommunication Tariff (Thirtieth Amendment) Order, 2004".

    (ii) This Order shall come into force from the date of its publication in the Official Gazette.

Section II

2.1 Under Section II (Definitions) of the Telecommunication Tariff Order, 1999 hereinafter referred to as TTO (as amended by 17th Amendment Order dated 22.01.2002), sub-clause (l) of clause 2 shall stand substituted by the following: (l) "Reporting Requirement" means the obligation of a service provider to report to the Authority any new tariff for telecommunication services under this Order and/or any changes therein within SEVEN days from the date of implementation of the said tariff for information and record of the Authority after conducting a self-check to ensure that the tariff plan(s) is/are consistent with the regulatory principles in all respects which inter-alia include IUC Compliance, Non-discrimination & Non-predation."

2.2 Under Section III, Clause 4 (Forbearance) of the TTO (as amended by 21st Amendment to TTO dated 13.06.2002) shall be substituted to read as under: Where the Authority has, for the time being, forborne from fixing tariff for any telecommunication service or part thereof, a service provider shall be at liberty to fix any tariff for such telecommunication services; Provided that service provider shall comply with the reporting requirements in respect of such tariff.

2.3 Under Section III, in Clause 7 (Reporting Requirement) of the TTO sub-clauses (iii) & (iv) (inserted vide 17th Amendment to TTO dated 22.01.2002) shall stand deleted.

Section III

3. In Schedule-II (Cellular Mobile Telecom Service) of TTO under the existing clause 6 (vide 24th Amendment to TTO dated 24.01.2003) in respect of "Tariff for pre-paid service", after proviso (d) a new proviso (e) shall be inserted namely:

e) All services which do not affect "talk time value" including incoming voice calls / SMS shall continue to be available to the Pre-paid subscribers during the entire validity period even after the talk time value is exhausted.
Section IV

This Order contains at Annexure A an Explanatory Memorandum, which explains the reasons for this amendment to the Telecommunication Tariff Order, 1999.

By Order,
[Dr. Harsha Vardhana Singh]
Principal Advisor cum Secretary
Telecom Regulatory Authority of India

Explanatory Memorandum

A. *Amendment in Provisions Relating to Reporting Requirement of Tariff Plans to the Authority.*

1. The Telecommunication Tariff (27th Amendment) Order, dated 25.04.2003 stipulates that all telecom service providers shall adhere to the provisions of the reporting requirements as per TTO, 1999 as amended by 17th Amendment stipulating that all service providers shall file their tariff plans at least FIVE working days prior to its launch in the market.
2. In view of the review of the IUC Regulation by the Authority a Self-Check regime was specified under which service providers were asked to implement the tariff plans after conducting a Self-check of their tariffs with the regulatory principles including tariff being IUC Compliant.
3. The Authority has now notified revised IUC Regulation, 2003 dated 29.10.2003 stipulating cost-based Interconnect usage charges. Furthermore, the price developments of Voice-telephony show that there is intense competition. With a high degree of competition, prior approval of tariffs may not be required as

competition replaces regulation by the regulator. The Authority is of the view that current declining tariff environment is an ideal time to switch over from an Ex-ante tariff regulation to Ex-post tariff regulation meaning thereby, complete freedom would be given to operators in the matter of offering tariff plans in the market within the framework of the existing TTO. The Authority has already laid down broad regulatory principles to determine as to whether a particular manner of pricing service is anti-competitive / discriminatory etc. Further the Authority has forborne with the main tariff items in Cellular and Basic services (except rural subscribers tariff & roaming tariffs). The IUC regime specified by the Authority reflects the underlying costs providing the service. Also the IUC charges as specified will implicitly function as a floor to the retail tariffs and thereby scope for predatory pricing or cross-subsidization is limited.

4. The Authority is also of the view that the practice of seeking approvals to a large number of plans some of which are not even implemented creates needless pressure on the limited resources of the Authority. Thus the purpose of this amendment to TTO is to avoid undue pressure on regulatory resources as well.
5. The Authority has, therefore, decided to allow the flexibility to all telecom service providers to report their tariff plans to the Authority within 7 days from the date of implementation after conducting a Self-check to ensure consistency of the tariffs with the relevant regulatory principles which inter-alia includes Tariffs being IUC Compliant, Non-discriminatory and Non-predatory and hence this amendment.
6. However, the Authority would intervene in matters where the stated tariff regulatory principles are violated by the service providers.

7. This Amendment shall be applicable to all telecommunication services which fall under the purview of reporting requirements of TTO, 1999.

B. *Note in Respect of Provisions of Facilities of Incoming Calls / SMS etc. to Pre-paid Subscribers.*

1. The Authority has received number of complaints from subscribers regarding bar of Incoming calls / SMS facility even within the validity period once the talk time becomes "nil.
2. Authority viewed it seriously and after examining the issue found that while paying the "Processing Fee" the pre-paid subscribers purchase a certain value of "talk time" and has the right to remain connected for a specified period i.e. validity period and therefore, subscriber should remain connected to avail all services which do not have a bearing on the talk value during the entire validity period contracted even after the entire talk value exhausted.
3. The Authority has, therefore, decided all services which do not affect "talk time value" including incoming voice calls / SMS shall continue to be available to the Pre-paid subscribers for the entire validity period even after the talk time value is exhausted.

[Dr. Harsha Vardhana Singh]
Principal Advisor cum Secretary
Telecom Regulatory Authority of India

Annexure XIX

LIST OF TELECOMMUNICATION REGULATIONS BY TRAI IN INDIA

S. No.	Regulations	Released date
1.	The Telecommunication Interconnection Usage Charges (Third Amendment) Regulation, 2003 (7 of 2003)	31st December'2003
2.	The Telecommunication Interconnection Usage Charges (Second Amendment) Regulation, 2003 (6 of 2003)	12th December'2003
3.	The Telecommunication Interconnection Usage Charges Regulation, 2003 (5 of 2003)	25th November'2003
4.	The Telecommunication Interconnection Usage Charges Regulation, 2003 (4 of 2003)	29 Regulation, 2003 (4 of 2003th October'2003
5.	The Telecommunication Interconnection Usage Charges (Iuc) (Second Amendment)) Regulation, 2003	16th June'2003
6.	The Telecommunication Interconnection Usage Charges (Iuc) (First Amendment)) Regulation, 2003 (2 of 2003)	27th March. 2003
7.	The Telecommunication Interconnection Usage Charges (IUC) Regulation, 2003 (1 of 2003)	29th January 2003
8.	Regulation on Quality of Service For VOIP Based International Long Distance Service, 2002 (3 of 2002)	15th November 2002
9.	The Telecommunication Interconnection (Reference Interconnect Offer) Regulation, 2002 (2 of 2002)	12th July 2002

10.	The TRAI (Levy of fees and Other Charges for Tariff Plans) Regulation, 2002(1 of 2002)	13th June 2002
11.	The Telecom Regulatory Authority of India (Officers and Staff Appointment) Regulation, 2001	15 February 2001
12.	The Telecommunication Interconnection (Port Charges) Regulation 2001(6 of 2001)	28th December 2001
13.	Regulation on Quality of Service Dial-Up and Leased Line Internet Access Service, 2001	10th December 2001
14.	The Telecommunnication Interconnection (Charges and Revenue Sharing)Regulation , 2001 (5 of 2001)	14th December 2001
15.	Regulation on Guidelines for registration of Consumer Organisation / NGO and their interaction with TRAI, 2001	15th January 2001
16.	Regulation on Quality of Service of Basic and Cellular Mobile Telephone Services, 2000 (2 of 2000)	5th July 2000
17.	The Telecommunications Interconnection (Charges and Revenue Sharing - First Amendment) Regulation 1999 (3 of 1999)	17th September 1999
18.	The Register of Interconnect Agreements Regulations 1999 (2 of 1999)	31st August 1999
19.	The Telecommunication Interconnection (Charges and Revenue Sharing) regualtion 1999 (1of 1999)	28th May 1999
20.	Telecommunications Tariff (Publication & Reporting) Requirement	8th April 1999
21.	The TRAI Meetings for Transaction of Business Regulation, 1999	22nd March 1999

Source: TRAI, January 2004.

BIBLIOGRAPHY

Primary Source:

Persons Interviewed in March 2003

Dr. Animul Islam Choudhery, Ex-Chairman, Sonali Bank and Former-Vice Chancellor, Jahagir Nagar University, 4 March 2003, Dhaka.

Dr. Binayak Sen, Fellow, Bangladesh Institute of Development Studies, 20 March 2003, Dhaka.

Enam Ahmed Choudhery, Chairman, Privatization Commission 5 March 2003, Dhaka.

Ferdausa Ara Begum, Joint Secretary, Dhaka Chamber of Commerce and Industry (DCCI), 15 March 2003, Dhaka.

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