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CHANGING PHASE OF PUBLIC SECTOR IN INDUSTRIAL GROWTH OF BANGLADESH

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Abstract: *Role of industrial sector is a predominant in economic development. Industrialization has been accepted as a vital instrument of economic development in many developing countries. The government of Bangladesh has been giving enormous importance and support to the expansion of medium and large scale industries through the Development Finance Institutions. A large number of State Owned Enterprise comprising industrial, commercial and financial institutions were put under public ownership by 1974-75. However the public sector enterprises have reduced considerably after the paradigm shift in the government economic policy towards privatization. The privatized enterprises mostly constitutes the sectors like textiles, jute manufacturing, sugar, fish processing, chemicals, food, lather and banking etc. This paper discusses the main issues concerning the privatization program in Bangladesh and points out how the country's privatization program can be improved. We also put some opinions in the last section issues relating to privatization and industries becoming sick.*

Keywords: Industries, Economic development, Program, Privatization.

1. INTRODUCTION

Bangladesh is a developing country and the present government is striving relentlessly to attain rapid economic development in the country. Many programs taken so far have been carried out successfully. Despite lack of resources faced by the local government, development programs in the key sectors have continued.

Role of industrial sector is predominant in economic development. The present contribution of the industrial sector in the GDP of Bangladesh is about 17.05% and the growth rate of the industrial sector is about 6.6%. [6]

Economic performance of the industrial enterprises is a growing concern in all developing countries. Bangladesh economy which is growing at an average annual rate of about 5.0% has vast potentials for development. The economy is yet to reach take-off stage and there is vast scope for development.

Industrialization has been accepted as a vital instrument of economic development in many developing countries. The Government of Bangladesh (GOB) has been giving enormous importance and support to the expansion of medium and large scale industries through the Development Finance Institutions (DFIs) like Bangladesh shilpa Bank (BSB), Bangladesh Shilpa Rin Sangstha (BSRS), Bangladesh Small and Cottage Industries Corporation (BSCIC) since the birth of Bangladesh. The Nationalized Commercial Banks (NCBS) also extended their industrial finance in vast scale. The commercial banks had no or little earlier experience and professional expertise to handle industrial development financing. A large number of industrial units in Bangladesh have become sick in course of development and growth of the industrial sector. The emergence of sick industries is acting against economic development efforts of the country.

2. WHY PRIVATIZATION IS CONSIDERED

The record of heavy Losses, continued injection of equity of public enterprises, and borrowing from the banking sector suggests that some of public sector firms may not be economically viable even under commercially motivated management whether public or private []. Those enterprises that are not viable, as determined on the basis of economic calculation, would be closed down and liquidated. Closure and liquidation of non-viable enterprises is much better than continued subsidization, at the expenses of the public exchequer, of or due to inefficient use of labor and capital in the production of commodities that consumers are unwilling to purchase and those in which the country has no comparative advantage [2]. The sooner non-viable enterprises are shut down and liquidated, as consider as the better it is in terms of social welfare. Resources currently used to subsidize them can be used in more productive endeavors. The same argument applies for privatized and private firms. The argument for eliminating subsidies for non-viable private firms is stronger since subsidies given to private firms benefits a few at the cost of the public. So, public enterprises may be sold, irrespective of the size of its fixed assets, market share or profitability. Also, privatization is required to increase the role of private sector in order to accelerate economic development. There are several objectives [2] of privatization of commercial public enterprises. Firstly, to eliminate the fiscal burden of subsidies and the banking system's support to the public enterprises; Secondly, to improve productive efficiency of these firms; and thirdly, to increase the social and the private rate of return to capital.

3. PERFORMANCE OF STATE OWNED ENTERPRISES (SOEs)

The performance of the nationalized sector in terms of services, production, sales and profits were disappointing due to many factors. [4]

External factors included in the disruption and destruction caused by the liberation war, the problems of re-establishing the economy in the aftermath of the war, inadequate investment in the plant, increases in import cost, taxes and tariffs, depreciation of currency (value of Taka), adverse movements in terms of trade and uncertain foreign aid flows, particularly during the recession of the 1970s and the early 1980s.

Internal factors included the lack of clear objectives, non-availability of raw materials, labor problems, power failures, inexperience, poor management, and lack of use of managerial autonomy tools /methods and a result based system of accountability of officials /managers responsible for non-achievement of tangible benefits/profits.

Consequently control was sought to be exercised through day-to-day interference on operational matters by the public agencies curtailing the autonomy to achieve objectives for which the SOEs were created.

3.1 Loss of State Owned Enterprises (SOEs)

SOEs incurred chronic losses and continued to rely on state subsidy. Besides losses and low rate of return, most SOEs in Bangladesh obtained equity injections from the state and substantial amount of loans from nationalized commercial banks (NCBs) [4]. Up to March 2007, total outstanding loan of public enterprises from

Table 2 shows outstanding loans of SOEs (under industrial sector corporations) from NCBs in two different periods.

commercial banks was Taka 41384 million. Of them, the amount of default loan was Taka 9513.10 million.

Table 2: Outstanding Loans (from NCBs) of SOEs of Manufacturing Sector Corporations

(In Million Taka)

Name of the Corporation	**Outstanding Loan (Up to December 1997)**	**Outstanding Loan (Up to March 2007)**
BJMC	16,237.6	23478
BTMC	6,341.2	2788
BSEC	7,986.5	849
BSFIC	1,942.9	6681
BCIC	1,408.0	7588
Total	33,916.2	41384

Source: Akram, 1999: 15 (for data up to 1997) and Bangladesh Bank, Dhaka (for data up to March 2007)

During 2000, SOEs had total assets of Taka 439 billion (US $ 9.8 billion) with a total short-term debt of Taka 386 billion (US $ 8.6 billion). This has led to the conclusion being drawn that SOEs are grossly inefficient, producing a negative return on investment and delivering annual losses of Taka 16 billion (US $0.35 billion)

3.2 Bank loan

Up to December 2010, outstanding bank loan against 19 SOEs stood at Tk. 25,075.60 crores. Out of this, the classified loan accounts for Tk. 1,361.11 crores (5.42 percent). The SOEs which own substantial amount of debt to State-owned Commercial Banks (SCBs) are: BPC (Tk. 8,780.59 crores), BJMC (Tk. 3,104.63 crores), BPDB (Tk. 4,571.30 crores), BCIC (Tk. 4,822.45 crores), BOGMC (Tk. 382.60 crores), BSFIC (Tk. 1,233.78 crores), BADC (Tk. 1,069.80 crores) BSEC (Tk. 314 crores), and BTMC (Tk. 251.58 crores). On the other hand, the entities that have maximum classified loans to the banks include:
BJMC (Tk. 910.84 crores), BTMC (Tk. 245.78 crores), BCIC (Tk. 95.92 crores), BSEC (Tk. 39.36 crores), BADC (Tk. 21.27 crores), and BSFIC (Tk. 15.59 crores).[8]

The poor economic performances of SOEs and the heavy financial burden on the state were major concerns for the policy makers of the successive governments in Bangladesh. This has contributed to the pursuance of the policy of privatization regarding SOEs after 1975.

4. BACKGROUND OF THE PRIVATIZATION

Privatization programs got its virtual start in Bangladesh in the mid-seventies. The first round of privatization was put to work following the post-independence thrust on economic growth. The second phase of privatization (or denationalization) took place textile mills owned originally by Bangladeshi citizens prior to independence.[7]

The Revised Investment Policy designed in 1975 put much emphasis in the development of private sector providing enormous incentives to spur private investment. A Disinvestment Board was set up in 1975 and a total of 255 SOE's enterprises were privatized in between 1975 to 1981 and about 115 of these SOE's, were divested through the office of the then Director General of Industries (DGI). The New Industrial Policy (NIP) of 1982 marked a major shift towards privatization where total of 222 SOE's got privatized under the NIP' 1982 [7].

The privatization programs gained gradual momentum and government made liberal Industrial Policy in 1991, where 42 enterprises were identified for privatization. In the meantime, the government created an Inter-Ministerial Committee on Privatization(ICOP) in the year 1991 to develop a privatization policy. In 1993, Privatization Board was set up and assigned with the responsibility of privatizing State Owned Enterprises (SOEs) identified by the Government. Subsequently, the Privatization Board was converted into a Commission delegating more administrative and financial authority to intensify the privatization program drive.

in the first half of the 1980's and that covered jute and which 54 were privatized through outright sale and 20 through off-loading of shares[7]. The privatized enterprises mostly constitute the sectors like textiles, jute, manufacturing, sugar, fish processing, chemicals, food, leather, and banking sector, etc.

6. SPEED, TIME FRAME AND PROGRAM EFFECTIVENESS REGARDING PRIVATIZATION

The authorities had announced that 54 firms/ industries are to be privatized within the financial year 1997-98. But the authorities were unable to privatize such a large number of firms. Since, then only four enterprises have been privatized and handed over to the private sector. The pace of the program is slow even though the authorities are determined to privatize a large number of enterprises within two or three years. The parameters and scope of privatization has not yet been agreed upon at the highest level of the government. The policy does not provide a time frame work for the completion of the privatization program in Bangladesh [2].

A rapid and well planned privatization is to be preferred over a slow and ill-conceived privatization. A slow and ill- planned privatization program can

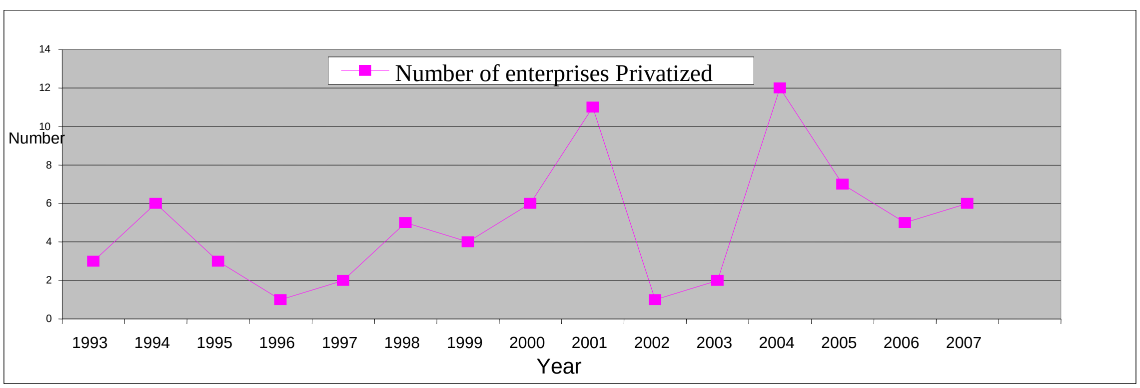

Fig.1 : Year-wise status of Privatization

5. ACHIEVEMENT IN THE PRIVATIZATION

A World Bank study (1994) reveals that, around 305 State Owned Enterprises (SOEs) comprising industrial, commercial and financial institutions were put under public ownership by 1974-75. However, the size of the public sector enterprises has reduced considerably after the paradigm shift in the government's economic policy towards privatization [7]. Since the establishment of the Privatization Board in 1993 and thereafter the Privatization Commission in 2000, 74 state owned enterprise were privatized of

demoralize workers and managers in the public sector. The management of enterprises may engage in capital depletion if they have no stake in the privatization process. At present, they fear that they will lose their job security after the transfer of ownership from the public sector to the private sector. Privatization should be carried out quickly, retaining the loyalty and morale of the firm's workforce and reducing the scope for asset depletion[2].

According to the policy, the state shall ensure that the transfer of the privatized enterprises is to be completed within 90 days of signing of the agreement. But the authorities have had problems adhering to such deadlines. The less delay there is in the transfer process, the better it is for corporate management.

7. CONCLUSION

Bangladesh will continue to be mixed economy in which the state owned enterprise and financial institutions retain a vital role, even as more firms emerge in the private sector and some are privatized. Without discipline in the financial sector, there shall be no gains from privatization. Irrespective of the status of their ownership, inefficient and loss-making firms cannot continue to be indefinite drain of the state budget.

The goals of privatization must be clearly defined. The process of privatization must be transparent and carried out rapidly and efficiently[2]. Successful privatization and private sector development require institutions and institutional practices that promote activity and support the smooth operation of markets and production processes.

Privatization[2] should be implemented as integrated part of an authentic liberal economic order that incorporates fair laws and their strict enforcement, fiscal and monetary discipline, competition, etc. Privatization of public enterprises in Bangladesh would have to be accompanied by a set of policies that ensure that enterpreneurs profit from productive endeavors.

Martin (2000) concluded that if privatization is to yield strong benefits to society as a whole, it needs to managed to ensure transparency, equity, and fairness, and consideration must be given to its impact on workers, employees, owners and investors, consumers, management and all stakeholders[3].

We discussed in the above some of privatization issues. But trying to finding out why there is privatization, we found definitely those industries generally become reach at the stage of sickness before privatization. We think there might be other reasons to combat industries becoming sick a few of which are listed below. However for studies sake we are putting our own views but such opinions are not an attempt to blame others or the Government. We know there might be other opinions too. In the following some of management related opinions are listed only :

1. Inefficiency and stubborn attitude of the management.
2. Bureaucracy of the government/ financial organizations in giving required decisions in time.
3. Stubborn attitude of the management of not trying to change or to disclose the latest position/situation
4. Stubborn attitude of the management of trying not to discuss the decreasing position/situation with others.
5. Stubborn attitude of the management of trying not to adapt to standard methods /principles relating to application of Engineering/financial, etc. rules/ theories.
6. Inability to foresee near and far future.
7. Relying more on past practices which might be far different from standard.
8. Giving more value to own status and position rather than considering the deteriorating condition of enterprise.
9. After privatization if taken to Government control, all officers and employees attitude become that of state owned industries as was done after liberation here.
10. We can rather see that people of enterprises think more about own gain rather than enterprise's gain.
11. We think, training, accountability and at the same time some job security must be ensured.
12. We think during handing over conditions must be imposed like no pay (no profit/sales), no salary, etc.
13. All jobs should be made temporary following ILO and state rules to ensure fear of losing jobs in case of inefficiency, etc.,

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