

PRIVATIZATION OF PUBLIC ENTERPRISES IN BANGLADESH: PROBLEMS AND PROSPECTS

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1. Introduction

This paper examines the scope for gains from the privatization of public enterprises in Bangladesh. The paper discusses the main economic issues related to privatization of public enterprises. Bangladesh's privatization programs and policies are placed in the context of its political economy.

Public enterprise activity is around 6 percent of the Gross Domestic Product (GDP) and their fixed assets represent 25 percent of Gross Fixed Capital Formation. Public enterprises operate in crucial industrial segments of the economy, particularly in manufacturing, and in providing infrastructure services. The net worth of public enterprises is approximately US\$ 3.6 billion (approximately 14 percent of GDP). In 1996-97, the annual losses of the public sector approached US\$ 250 million which is equivalent to 30 percent of the country's annual project disbursement aid and nearly 1 percent of its Gross Domestic Product. 90 percent of the public enterprises have borrowed highly from the nationalized commercial banks. There are nearly 300 public enterprises. These firms are organized into 39 corporations which are umbrella entities; four nationalized banks; three insurance corporation; two agricultural bodies; and three development financial institutions. Public enterprises are dominant in the following sectors: electricity, gas, and water; railway; airlines and civil aviation; petroleum; telecommunication; banks and insurance. 80 percent of public enterprise assets are in the utilities and infrastructure such as power, gas, telecommunications, and transport.

There has been a long-term decline in the profits of public enterprises. The poor performance of public enterprises has direct and indirect costs. The public enterprises require budgetary support. They pose a serious threat to the financial security of the nationalized commercial banks and, indeed, the financial system. There is also private costs of public enterprise failure. The inefficiency of public enterprises leads to higher production costs and lessens the competitiveness of Bangladeshi products in international markets. A good example of the inefficiency of the public enterprise is the system-loss of electricity transmission. In general, public enterprises in Bangladesh earn either very low rates of economic profits or incur high losses. They are inefficient, their subsidization weakens their fiscal position and their poor performance adversely affects the country's industrial sector.

The source of the problem of inefficiency is that public enterprises are agents

without a commercially motivated principal. This is due to the lack of good management; high fixed cost because of the employment policy that has led to excess number of staff and higher wages than those justified by productivity; administered prices; the absence of a competitive environment; continued budgetary support; and soft loans from nationalized commercial banks. Multiple, non-commercial and conflicting objectives of public enterprises prevent its management from securing maximum profits. The bureaucracy does not and cannot monitor the public enterprises effectively because it is more process-oriented rather than result-oriented. Thus, under state ownership, the management merely satisfies certain routine procedures rather than maximize profits, increase sales, and secure greater market share. Public enterprises have "soft budget constraints," thanks to state intervention. The reasons for the failure of public enterprises are the lack of direction, absence of managerial autonomy, weak management, over-staffing and abuse of overtime benefits, revenue pilferage, capital depletion, and low and uneconomic prices. Poor incentive structure for the management and workers (rewards not linked to performance and profitability); severe monitoring problem; bureaucratic preoccupation with process rather than results; and ill-defined, fuzzy and time-varying objectives cause public enterprises to perform poorly.

Public enterprises, as is typical of firms with dissipated ownership, suffer from a moral hazard problem because of the separation of ownership and control. In theory, citizens of the state are the owners of public enterprises. There is barely any incentive for individual citizens to monitor the activities of public enterprise managers and employees. Large private firms resolve the problems of dissipated ownership, albeit impartially, through the market for corporate control. With public enterprises, management is not subject to takeover threat. Arguably the cost of shirking in the public sector than in the private sector. Usually the private sector's monitoring cost is lower and its surveillance technology and capacities are better than the public sector. The traditional source of capital expenditure, namely budgetary support, is drying up for public enterprises. Under present management structure, public enterprises are unable to tap the domestic capital market, let alone the international capital market.

Various attempts at public enterprise reforms and restructuring have not improved their performance. It is unlikely that statutory and administrative steps can cure fundamental problems of public enterprises as long as they are not subjective to market discipline.

1.1 Evolution of Public Enterprise Regime and the Policy of Privatization in Bangladesh

After its war of national independence, Bangladesh was nominally committed to the "socialist pattern" of development. But the decision to nationalize enterprises was driven by the immediate objective of the regime rather than by any deep-seated ideological convictions. The former Pakistani owners of enterprises had left the country following the surrender of the Pakistan army and abandoned their property. The government decided to "nationalize" the abandoned property of the Pakistani owners, and all major enterprises, irrespective of whether its owners were Pakistanis or Bangladeshis. Other reasons for state involvement in industrial production were the apparent lack of an indigenous class of capitalists; the state's desire to industrialize the country without relying on foreign investment; and undoubtedly for political patronage by providing "jobs for the boys" and lucrative contracts for favored businessmen.

Nationalization took place in 1972, within a year after the proclamation of the country's independence. But the regime was overthrown in a military coup in August 1975. Redirection of the economy took place under Revised Investment Policy of 1975. During 1975-1981, 255 public enterprises were divested. Bangladesh's economy was further liberalized with the announcement of a new industrial policy in 1982 under another new military regime of General Hussain Mohammed Ershad. Subsequently, the second phase of privatization was carried out in the early 1980s: 261 public enterprises were denationalized. During the Ershad era, various economic reforms were undertaken to create a more market-oriented economy. The government's Industrial Policy of 1991, revised in 1992, further extended market economic principles. Subsequent governments have announced that they will undertake further privatization of public enterprises. Since the early 1990s, industries earmarked exclusively for public investment are categorized in the reserve sector. The present policy environment emphasizes the role of the private sector in industrial development and, at least in paper, de-emphasizes the role of the state. Despite economic liberalization, the third stage of privatization may experience delays due to the following reasons: bureaucratic opposition; the lack of a constituency for privatization; the poor financial condition of public enterprises; and the weakness of the national financial system. The third stage of privatization, presently under consideration, would be the biggest, in terms of the value of net assets, privatization

the country has undertaken. Private sector entry, trade liberalization, the growth of ready made garments sector, and labor remittance have played a much more crucial role than the privatization of public enterprises in the evolution of the economic environment in Bangladesh.

Bangladesh has privatized a large number of units in the past. But the total value of privatized firms is not very high. Moreover, such privatization did not generate much revenue. Past privatization has been criticized because some of these enterprises have failed to repay debt owed to commercial banks and development financial institutions; the tendering processes were tainted with corruption and collusion; and there is no evidence of post-privatization efficiency gains.

Despite economic liberalization, the third stage of privatization may experience delays. The bureaucracy is not in favor of privatization. Privatization lacks an organized constituency. The financial condition of public enterprises is poor. The national financial system is weak. Above all privatization policy lacks a strategic vision, and the program is yet to prove its feasibility and effectiveness.

2. The Basic Issues in Privatization

The question of privatization arises because of the evident failure of public enterprises. Those in favor of privatization cite both economic and political reasons for privatizing public enterprises in Bangladesh. The economic reasons are that it brings about efficiency gains and it reduces the state's fiscal deficits by asset sales. The political motives are to reduce the role of the state in the economy, appease the international donor community which is calling for market-oriented economic development, curb the excessive demands of public sector employees, and get rid of the *nomenklatura* associated with operating and managing public enterprises.

Advocates of privatization argue that the potential benefits of privatization are substantial. Private ownership of firms improves efficiency because private firms provide better incentives and monitoring. It fosters efficiency; encourages investment, employment, and growth; and frees public resources for development objectives, such as primary education, health care, shelter, emergency relief, and investment in infrastructure. While high quality public investment may "crowd in" private investment, state subsidization of inefficient industries has detrimental effects on private investment. Furthermore, privatization not only generates revenues through sales

receipts and reduces public subsidies and borrowing requirements, but also depoliticizes economic decisions, reduces the power of public sector trade unions, and creates a property-owning democracy. It can bring greater tax and non-tax revenue for the government. Privatization leads to investment in appropriate technology, strengthens management, and improves the collection of revenue. Privatization also contributes to the development of the formal private sector. The incentives arising from the ownership of private property lead to better monitoring of managers, reduce shirking behavior, and above all maximize the present value of the enterprise. An argument often made against privatization is that the failure of the public enterprise is not due to state ownership but rather comes from bad pricing policy and the lack of incentives to improve performance. The advocates of privatization hold that this argument is erroneous because they maintain that ownership determines performance. The existence of a market for corporate control enhances the performance of enterprises.

2.1 "Non-traditional" Arguments for Privatization

A reason for advocating privatization is that it opens the door to the private sector. It brings in investment funds that would otherwise be kept off-shore or would be used in legal directly unproductive profit-seeking activities or even illegal activities. It can be argued that privatization is beneficial even when the private sector's propensity to invest in productive capital is less than that of the state sector. In essence, the act of privatization has a "crowding in" effect on investment because, firstly, it creates confidence from the regime's commitment to economic policies in favor of property owners and, secondly, it diverts investment funds previously used in directly unproductive profit-seeking activities to productive endeavors. To be sure, in a distorted regime, this diversion need not be unambiguously welfare-enhancing.

It can be argued that the non-economic objectives of public enterprises do not serve social wellbeing but rather perpetuate the interests of groups in power. Privatization depersonalizes economic transactions and strengthens market forces.

2.2 Problems of Valuation

Valuation of public enterprises is the most politically charged and technically difficult aspect of privatization. The balance sheets of public enterprises are

but profitable; and, (iv) economically non-viable and unprofitable.

Viable enterprises are the ones that earn zero or positive economic profits in a non-distorted environment and, hence, whose operations are justified on the basis of economic rationality. Non-viable enterprises are the ones that fail to earn profits in a non-distorted environment and, hence, whose operations are not justified on the basis of economic rationality. Profitable enterprises are the ones that secure accounting profits under existing market conditions, and unprofitable enterprises are the ones that incur accounting losses under existing market conditions.

Economically viable public enterprises, whether currently earning profits or not, are suitable for privatization, while the economically non-viable public enterprises should be shutdown. The operation of non-viable enterprises cannot be justified on economic grounds even in a non-distorted environment, and under private ownership these firms will not be profitable. Shutting down of non-viable public firms is essential, necessary, and unavoidable.

2.8 Bankruptcy

Some of the public enterprises are beyond redemption. They cannot cover variable costs and must be liquidated because they are a burden on the economy. Bankruptcy is a normal and natural phenomenon of a flourishing capitalist economy. If a firm is unable to meet its financial obligation to its creditors, it shuts down. Due to the mistakes of the entrepreneur in predicting costs, demand conditions, and market prospects the firm fails to realize its costs of production of the commodity. This failure indicates that the firm is using society's resources ineffectively. If the firm fails to reduce its production cost, it will be a losing venture. As creditors are unpaid, they resort to the legal system to obtain their dues and the authorities force the firm to pay its creditors. If the firm is unable to meet its obligations, its assets are sold off to pay debtors. The disadvantage of such closures is that it causes job losses, and creditors remain partly unpaid. The advantage of closure is that unprofitable and inefficient uses of resources are terminated. As resources are re-deployed to more efficient uses, new jobs are created and society benefits. As a result of closures, creditors thereafter learn to lend more carefully. The "educational" effect of bankruptcy cannot be overemphasized because it leads to better monitoring and management. The purge of inefficient firms is unavoidable in a market order. The extinction of inefficient firms and the threat of bankruptcy are vital to ensure the efficient functioning of the

market. The state must not guarantee the sustenance of non-viable enterprises. Thus, authorities in Bangladesh must establish and abide by an exact legal definition of bankruptcy. The legal system has to provide fast and effective decisions on bankruptcy. The procedures for filing for bankruptcy must be simple, universal, and feasible. The threat of bankruptcy must be credible. Efficient liquidation and real threat of exit are required to improve the performance of firms.

2.9 Competition and Privatization

The gains of privatization arise when privatized firms are set up in a competitive environment, and face credible threats of takeover and potential danger of bankruptcies (Vickers and Yarrow 1985, 1998; Yarrow 1986). If privatized firms are immune from the peril and risk of inglorious exit, then they too have little reason to act differently than complacent public firms.

2.10 Regulations

The regulatory environment in Bangladesh is very weak. The state's capacity to regulate is poor due to the dearth of trained personnel, the lack of appropriate legislation, and rampant corruption. The objective of a regulatory framework would be to ensure that enterprises maintain minimum contractual obligations and avoid windfall profits by the exploitation of customers. Structural regulation based on the application of simple rules rather than arbitrary, fiat-regulation is more appropriate for Bangladesh. It is better to have structural regulation rather than conduct regulation because that limits the bureaucracy's capacity to extract rents. At present, public enterprises have certain regulatory functions. Spinning-off of regulatory bodies from public enterprises would be necessary prior to their privatization. In non-competitive markets, regulatory systems must be in place to protect consumers from non-competitive practices. The state has an obligation to protect public interests through regulatory capacity, which however ought to be dispensed with discretion and prudence. Monopolies, in properly regulated industries, have limited ability to abuse market power. The private provider of a monopoly service needs to have a good set of incentives. In industries with monopoly structure, privatization works best if accompanied by appropriate regulation.

2.11 Debt, Default, and Privatization

A debt-default culture developed in Bangladesh as a result of the state patronage of a select group of the wealthy. Some of the wealthiest people in the country have borrowed funds from the development financial institutions but have refused to repay debts. Unless credit policy in Bangladesh is put on a commercial basis, the privatization program will not be worthwhile, because the rent-seeking class will simply buy public enterprise with public money, demand public funds to operate and subsidize privatized enterprises, and siphon-off wealth for private accumulation at public expense.

2.12 Capital Markets

The weakness of the formal securities market is a constraint to private sector development and privatization. Robust financial sectors and capital markets are essential to industrial development. However, past bad lending has increased the cost of capital in the country. The potential pool of buyers of public enterprises is small: the private sector in Bangladesh cannot absorb all public enterprises. Domestic saving in Bangladesh is still low (approximately 7.5 percent of GDP in 1996-97). The state can relax restrictions on mutual funds (unit trusts) and holding corporations. Tapping foreign investment may be necessary to privatize the remaining public enterprises, especially public utilities. It is clear from past experience of privatization that the sales of enterprises draw financial speculators, thanks to high land and property prices, rather than entrepreneurs interested in running industry.

3. Issue in Efficiency and Problems in Public Enterprise Performance

3.1 X-Efficiency

Technical efficiency means that the vector of inputs produces the vector of outputs at minimum opportunity cost (Leibenstein 1966). Technical inefficiencies from the lack of total cost minimization may arise in the operation of public enterprises from a relaxation of maximizing behavior; inertia; incomplete contracts and monitoring;

management discretion; the absence of competitive pressure; market power; state guarantees and subsidies, and so on. With some given set of input prices, if every firm minimizes the cost of production of its commodities then an economy is at a production optimum.

3.2 Allocation Efficiency

Efficiency in allocation of scarce resources holds when the vector of output is identical to the one chosen by the individual consumers in a perfectly competitive setting where prices convey the true costs of production. Other things being constant, privatization (profit-maximization) will initially bring about static efficiency, that is the efficient use of existing plant, equipment, and labor. But the main gain to be obtained is from dynamic efficiency, that is the efficient use of resources in the long run. Privatization is thought to bring gains of dynamic efficiency as it draws more and new investments in plant and equipment and better management of capital and labor in production in the long run.

3.3 Efficiency Gains from Privatization arising from "De-politicization" of the Firm

Boycko, Shleifer, and Vishny (1996) try to explain the cause of public sector inefficiency and the improvements that arise from privatization. They hold that under public ownership, politicians seek more spending on labor than the optimal level. Such political control leads to inefficiencies that harm the shareholders. If privatization can de-politicize the firm then the level of employment after privatization will be closer to the optimal level.

3.4 Preconditions for Efficiency Gains

The management of privatized enterprises are compelled to improve their performance because of direct monitoring by shareholders, efficient capital markets, potential takeover threats, and surveillance by banks, credit agencies and bond holders. However, due to the weak development of financial markets in developing country such as Bangladesh, the management faces little risk of failure or threat of takeover. Bankruptcy laws are inadequate. State-run banks are sponsors and providers of credit to privatized firms but they fail to effectively monitor the enterprises.

Furthermore, the problem of market power is increased where the size of the market is small relatively to the size of the fixed cost. Protection from international competition also hampers the efficiency of allocation of resources. Therefore, the state should formulate and implement policies that provide a good set of regulations and liberalize trade.

3.5 Social Optimum, Private Optimum, and Excess Employment in Public Enterprises

With high unemployment of labor, the social cost of labor is less than the market wage (Sen 1975). Thus, the private sector will employ too few workers and the output will be lower because the social marginal cost of output is less than the marginal private cost of output. In this circumstance, privatization is welfare-reducing if it leads to labor redundancy. However, due to patron-client ties public enterprises may also employ excess labor. Thus, labor reduction due to privatization can have different welfare-effects. Bhashar and Khan (1995) argue that patron-client ties manifest itself in the pattern of excess employment in public enterprises in Bangladesh. There would be a large number of redundant white-collar workers if excess employment arises due to vertical ties, whereas excess employment would be concentrated on blue-collar workers if it exists due to social welfare reasons. Analysis of changes in the various categories of the number of employees after privatization indicates that over-staffing in public enterprise is due to vertical ties, not social welfare concerns.

3.6 Financial Benefits versus Efficiency Gains

There is often a fundamental conflict between the state's financial motive for privatization and obtaining efficiency gains from privatization. In order to secure a high revenue from privatization of public enterprises, the state may simply transfer the so-called natural monopolies to the private sector, without setting up the appropriate regulatory or competitive framework. Clearly this would be an example of myopic behavior because there are limits to how much ownership change by itself would yield productivity gains.

3.7 Limitations of Privatization

It is crucial that the limitations of privatization are understood. The purpose of

privatization programs cannot be to transfer all social and economic functions of the state to the private sector. Privatization of public enterprises, along with the installation of an appropriate policy environment, can contribute to improvement in productivity resulting from better managerial surveillance and incentive structure. Privatization of public enterprises does not imply that the state is in retreat; there is clearly a role of the state not only in the management of the economy, but also in social policy in Bangladesh.

4. The Labor Market and Public Enterprises in Bangladesh

4.1 The Role of Public Enterprise Employees in the Labor Force

Total public sector employment is not very large; at best it constitutes approximately 1 percent of the labor force. Approximately 600,000 people are employed in public sector enterprises, a little more than 1 percent of the total labor force but more than 10 percent of the formal labor force. There are about 1 million workers employed with the Central Government. The formal labor force is about 5 million persons. About 51 million persons are employed in the informal and rural labor market.

4.2 Characteristics of Workers in Bangladesh

Most unskilled and semi-skilled workers originate from the class of small land-holding farmers and the landless segment of the rural population. Workers are essentially not much differentiated from the peasantry. The main asset for the poor in Bangladesh is their labor.

4.3 Labor Elite

As mentioned earlier, wages in the public sector are unrelated to productivity. There is little doubt that public sector is highly over-staffed. Mahmood (1989) investigates the extent of excessive employment in the public sector based on a comparison of public enterprises' output-employment ratio prior and after nationalization. Not only public enterprise wages are high by Bangladeshi standards

but also the benefits (wages, overtime, holidays) for public sector employees are generous by Bangladeshi standards. Public sector hiring is rarely based on competition, ability, education, or merit. Rather, workers are hired on the basis of regionalism, family relationships, and personal ties. Public enterprises are beset with the problem of "virtual" workers: payrolls of public enterprises list workers who do not exist. Some one else collects their wage. Therefore, from the viewpoint of efficiency gains, there is justification for cutbacks. The objective, thus, should be to achieve labor rationalization with minimum social cost by drawing new investment and creating new jobs in the public sector. If there is a net creation of new jobs, then displaced and dismissed workers will be able to find employment.

4.4 Trade Unions

Trade unions in Bangladesh are quite militant. Public sector employees are highly organized, and arguably the most politicized faction of the working class. Public sector wage increases, as result of apex trade union bargaining with the state and the employers' organizations, and acts as a trendsetter for the private sector. The institutional framework for resolving industrial relation disputes are not yet developed. Interests of workers in terms of health, or safety, are generally ignored. There is little scope for peaceful negotiation of labor conflicts due to the lack of an effective mechanism for arbitration of disputes. Work stoppages, strikes, lockouts, sabotage of production, violence, and terrorism characterize industrial relations in Bangladesh. Trade unions' practices are autocratic and arbitrary. The trade unions are allied with bourgeois national political parties and are subservient to the paramount party leaders rather than rank and file membership of the unions.

Labor laws must be reformed in order to make privatization of public enterprises easier. It is very important to change the present labor relations in public sector. Trade unions are highly politicized, militant, and violent, and regularly engage at the behest of the national political parties in nation-wide strikes known as hartals. The apparent militancy of the trade unions is not necessarily in the interest of the working class. Rather they preserve and protect the union elite and their political patrons.

4.5 Redundancy

At present, there is no "safety net" or social security for workers. In order to reduce

over-staffing in public enterprises, as they are privatized, the government can offer safety net, via the food for work program; provision for retraining; credit provisions for self-employment; and participation in employee stock ownership program. Workers can be provided with advanced notification of privatization, closure, and layoffs. The government would ease workers' plight during the transition process and win political support for privatization by providing severance payments; inducements to retire early; and training for displaced workers. Spreading severance payments over periods can reduce the burden on the exchequer. Without general acceptance of privatization, and supportive policy to mitigate the circumstances of laid-off workers, there can be social unrest. However, voluntary layoff schemes suffer from adverse-selection problems since the best workers are likely to take advantage of state schemes to reduce workers. The most productive workers choose to leave because they are more likely to get jobs elsewhere. Workers who are less productive and with lower alternative opportunities remain with the firm, thus burdening it even further. Perhaps the management of the enterprise can identify and select those who will remain and those who will be laid-off.

At present, workers, the state, and the private sector distrust one another. In past privatization programs in Bangladesh, workers were often dismissed despite legislated provisions and promises to ensure the job security of workers to up to a year after privatization. Provident funds for workers were expropriated through financial and legal manipulation by some of the new owners of the public enterprises.

The actual and potential labor opposition to privatization is overestimated. It is possible to privatize while limiting the scope of labor redundancy. The problem of inappropriate level of employment under public ownership can be overcome with appropriate policy steps. The state needs to establish and support workers' training and retooling programs, not only as a way of dealing with inevitable redundancy to be created from privatization and shut down but to improve overall labor productivity. The number of industrial training and vocational institutions in the country is far from adequate. As the country privatizes its public enterprises, budgetary support ought to be redirected from subsidies to inefficient firms to growth and productivity enhancing projects, such as labor retrenchment and retraining programs.

5. The Political Economy of Privatization in Bangladesh

One of the main criticisms of the privatization program in Bangladesh is that the government lacks a comprehensive, coherent, and convincing privatization policy. Privatization decisions are taken on an *ad hoc* basis. The program has been driven by the desire to extend opportunities for the *nouveau riche* to acquire wealth, and by donor pressures to conform to the international fashion for seemingly market-friendly development strategies. Ownership change may be a necessary condition, but the experience of privatization demonstrates that it is not sufficient for obtaining the gains from privatization. The state in Bangladesh is the principal instrument for fostering patron-client relationships and for accumulating wealth. The major beneficiaries of state intervention in the economy are the segments 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 persons and families closely tied with the ruling coterie to high positions in public enterprises as a reward for political and personal loyalty. Such appointments provide opportunities to amass wealth at the expense of the public.

5.1 Country Conditions and Privatization

Country conditions are important determinants of the success or the failure of privatization programs. Firstly, a stable and prudent macro-economic policy makes privatization programs more successful. Secondly, the state's capacity to formulate and implement cohesive and consistent regulatory policies also makes privatization successful since, if the public trusts the ability of the state to regulate an industry without causing undue distortions in the economy, it is more likely to accept the state's privatization policy. Moreover, the firm faces a better set of incentives under a properly regulated regime. Thirdly, the state's legal framework and political system affects the scope and pace of privatization.

In Bangladesh, economic and social policies are based on patron-client ties or vertical class relations. Some fraction of the upper class in power obtains public office and political support by providing goods and services to select groups. Local businesses are extremely dependent on the state. In order to benefit small segments of the upper class and the middle class, the market mechanism is widely distorted by the state. For instance, nationalized commercial banks give loans based not on the creditworthiness of borrowers or the feasibility of projects but rather on the political

and social ties of businesses to the ruling group. The government rarely challenges the status quo in Bangladesh for a number of reasons: firstly, it does not wish to upset the beneficiaries under existing practices; secondly, most of the present leaders cannot even imagine alternative policies; and, thirdly, it does not have a sizable constituency in favor of change.

The government of Bangladesh, irrespective of the party in power, is reluctant to initiate authentic reforms. In recent years, various governments in Bangladesh have carried out some reforms, but such reforms came about due to donors' pressures and changing needs of society rather than due to the actions of self-motivated actors.

In privatization, the state continues its policy of selective subsidies for small groups in return for the support of the status quo. Without a conducive economic environment based on competition, regulation, rule of law and order, enforcement of contracts, and above all political stability, privatization cannot bring about profound changes.

As pointed out, although Bangladesh has privatized firms in the past, privatization of public sector is an unfinished task. Policy makers have not viewed privatization as a policy option, an economic strategy for development. However, the state, thanks to its fiscal burden and donor pressure, will have no option but to privatize in large scale in the near future. It would be imprudent for policy makers not to prepare in advance for a systematic mode of privatization which yields the maximum possible gain from the transfer of control and ownership from the public sector to the private sector. If the privatization program is to succeed, the public would have to accept the process of privatization as legitimate. The authorities must articulate in the public arena the necessity of privatization as a policy option to promote growth.

6. In Lieu of a Conclusion

For Bangladesh to achieve a higher level of economic growth and fixed capital formation, develop its infrastructure and improve the quality of the life of its people, it must adopt and execute proper policies to privatize. The state's privatization policy must prevent directly unproductive profit-seeking activities that hamper economic growth and development. Improving the economic efficiency of its enterprises is a critical step for restoring the economy's capacity to invest for a higher rate of economic growth and development. Privatization is an essential part of the process of transition

to a new economic regime that supports economic growth and development in Bangladesh. Proper design and implementation of privatization policy is needed to ensure that enterprises function efficiently after they are privatized. The change in the nature of corporate governance is more crucial to achieve better performance than the change of the ownership of firms from the public sector to the private sector. When privatization takes place under suitable conditions, where the profit-motive of economic actors is directed at productive activities instead of rent seeking and corruption, it can contribute to growth and development. However, privatization is not a sufficient condition for the improvement of firm performance. Thus, privatization should be accompanied by policies installing a market order that promotes economic growth and development in Bangladesh.

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Abstract

The performance of the public enterprise sector in Bangladesh is poor. The inefficiency of public enterprises places a fiscal burden, diverts limited resources from growth-enhancing public spending to unproductive subsidies, and affects the country's industrial competitiveness. This paper identifies the prospects, problems, and pitfalls of privatization program and policies in Bangladesh. Firstly, the stylized facts about public enterprises are provided and the basic issues in privatization policy as it relates to Bangladesh are discussed. Secondly, the preconditions for efficiency gains arising from privatization are evaluated. Thirdly, the role of public enterprises in the labor market in Bangladesh is examined. Finally, the political and the economic factors that can offset the potential efficiency gains from privatization in Bangladesh are critically analyzed.

LA PRIVATISATION DES ENTREPRISES PUBLIQUES AU BANGLADESH: PROBLÈMES ET PERSPECTIVES**Résumé**

La performance du secteur des entreprises publiques au Bangladesh est faible. La faible efficience des entreprises publiques se traduit par un poids budgétaire, détourne une partie de ressources limitées du pays vers des subventions non productives au détriment des investissements publics favorisant la croissance et conditionne la capacité concurrentielle de l'industrie du pays.

Cet article identifie les perspectives, les problèmes et les pièges du programme et des politiques de privatisation au Bangladesh. On donne, avant tout, un cadre de la situation des entreprises publiques et on discute les problèmes fondamentaux de la politique de privatisation pour ce qui concerne le Bangladesh. On évalue les conditions préalables pour que la privatisation puisse engendrer un gain d'efficience et on examine le rôle des entreprises publiques dans le marché du travail du Bangladesh. Enfin, on analyse critiquement les facteurs économiques et politiques qui pourraient contrebalancer les gains d'efficience potentiels de la privatisation au Bangladesh.
