

Speech by
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Distinguished Chief Guest
Special Guests
Excellencies
Dignitaries
Ladies and gentlemen.

At the outset I would like to thank the Privatization Commission and its Chairman, Mr. Md. Abu Solaiman Chowdhury for inviting me to make the key note presentation at this, one day conference on the "Privatization of SOEs in Bangladesh-Challenges and Opportunities". I believe this a timely initiative, in line with the present Caretaker Government's strong commitment to private sector development, improving the business and investment climate in the country and creating an efficient, service oriented government. An effective privatization policy, I believe, should constitute an integral part of the reform agenda of the government. :

A frank and candid assessment of how effective the country's privatization programme has been during the past three decades, can lead to only one inescapable conclusion, the results have been disappointing, to say the least. More than half of the enterprises that have been privatized have shut down altogether. Of those privatized enterprises still in business, many are limping badly. Serious questions can also be raised about the process itself. What has been absent from the very beginning has been a coherent and credible strategy on privatization.

In order to have a comprehensive understanding of the ongoing process of privatization of State Owned Enterprises (SOEs), one needs to look into the backdrop under which it was initiated. At the time of independence, Bangladesh inherited a war-ravaged economy with much of the infrastructure destroyed and a large number of industrial enterprises and commercial establishments damaged and abandoned by their former non-local owners and managers. The Government took over the management of all abandoned factories and commercial establishments to provide entrepreneurial support and to get the economy moving; this was followed by large-scale nationalization of key large and medium industries, banks and financial institutions. The nationalization programme led not only to the transfer of ownership of the abandoned private enterprises of the Pakistani period, but to significant enlargement of the government ownership in the industrial sector.

However, the performance of the public sector enterprises has been a topic of much discussion over the years, with particular reference made to the losses suffered by the SOEs. One study reports that the persistent losses by the SOEs were costing the national exchequer nearly one per cent of GDP. A reversal of the policy of state ownership and control of industries began as early as 1974 through the Disinvestment Board in order to infuse dynamism in the moribund economy and to spur growth and job creation. The Industrial Policy of the early 80s was created to facilitate the privatization of State Owned Enterprises (SOEs).The establishment of the Privatization Board in 1993 and the resultant creation of the Privatization Commission (as a statutory body) in 2000 provided further impetus to the

ongoing process. The Privatization process was also influenced by the desire of the government to reduce the immense burden imposed by unprofitable SOEs on the National Exchequer.

The private sector, in recent years, has been seen increasingly as a dynamic engine of economic growth; in particular in boosting business competitiveness and trade expansion in the country. The government, today has adapted itself to playing the role of facilitator for the private sector, rather than being an opponent and a rival. The Industrial Policy of the government also reflects the view that it is not the role of the government to be in business.

Since the inception of the Privatization Board upgraded to the Privatization Commission in 1993, 74 public enterprises have been privatized. The Privatization Commission has so far earmarked 48 more State Owned Enterprises for sale to the private sector in the near future which include enterprises in the chemicals, steel & engineering, sugar & food, textile and jute sectors respectively.

An objective appraisal of privatization in Bangladesh clearly indicates that much more needs to be done on a broad range of issues. While on the one hand, several SOEs that have been privatized have performed reasonably well under the management of their new owners, on the other hand, in many cases, the privatized units have failed to become competitive and many have actually closed down. Besides, the process of privatization has proved to be extremely time consuming and cumbersome. In some cases the sale process is bogged down in litigation concerning assets, land valuation, title deeds and an assortment of claims by the parent ministry after acceptance of a tender offer. There are several cases of conflict of interest involving the parent ministries which would like to retain control of the SOEs; this results in interference and delays in the privatization process. In some cases there is evidence of political bias and interference.

In the light of this conflicting evidence, there is a need for policy makers to reformulate their strategies if they want the nation to reap the maximum dividend from privatization.

The seminar today, will hopefully, make a candid evaluation of the privatization experience during the past three decades, while at the same time putting forward some concrete suggestions on the way forward. Three papers will be presented in the afternoon session. The first speaker, Mr. Salahuddin Kasem Khan, Chairman of Aktel and a member of the BBBF, will be presenting a paper titled, "Privatization & Rehabilitation of Sick and Closed SOEs". Thereafter papers will be presented by Mr. Abdul Hai Sarker, President of BTMA and also a member of the BBBF on Regulatory Support for Privatized SOEs. The third paper will be presented by Ms. Lopa Rahman, who is the Corporate Governance Project Director at BEI, titled, "Privatization of the State Owned Enterprises (SOEs) in Bangladesh: Importance of Corporate Governance". It may be useful at this stage to briefly touch on some of the salient points in these three papers.

Mr. Salahuddin Kasem Khan provides a picture of the ground breaking and pioneering privatization process initiated by Margaret Thatcher, during her tenure as Prime Minister of the United Kingdom. Her bold step of implementing the privatization of nationalized industries in the face of stiff opposition from the trade unions and vested interest groups, not only improved competition, efficiency, quality of service, government revenue but also led to a dramatic growth in the number of shareholders in Britain.

Mr. Khan then provides a comparative picture of the pains in revenue from privatization in South Asia; it is evident that Bangladesh has significantly lagged behind its' neighbors, India and Pakistan. He highlights the opportunity lost due to the reluctance of BTMC to accept the joint audit of Textile Mills nationalized under P.O. 1972. The 18 year delay of BTMC in accepting the joint audit caused the mills to become sick, as existing technology could not be upgraded and worker liabilities spiraled out of control.

He uses this example to drive home the point that the denationalization process was flawed as it was subject to the influence of different vested interest groups. This was possible due to the absence of a coherent policy on privatization and also the absence of an effective code of corporate governance.

Mr. Salahuddin Kasem then compares the denationalization programme with the privatization initiatives undertaken by the Privatization Board in 1993 and the Privatization Commission from 2000 onwards. The institutional shape, the statutory standing, the presence of well framed laws, regulations, policies, have all contributed to the greater efficacy of the ongoing process. In order to improve the process further, he provides examples from the Malaysian experience and the salient lessons that can be put to use.

He then proposes three phases of the privatization programme that can be implemented- 1) Constitution of a High Powered Sick Industrial Board to prepare the list of litigation free SOEs for privatization that will be submitted to the Privatization Commission 2) Identifying SOEs that need to be privatized in a time bound manner 3) The rehabilitation of non-performing privatized SOEs through the provision of adequate regulatory support.

The second speaker this afternoon, Mr. Abdul Hai Sarker, in his paper titled, "Regulatory Support for Privatized SOEs explains the existing three policies through which the privatization process is regulated in this country, namely, i) Privatization Act 2000 under which the Privatization Commission and Policy was formed, ii) Privatization Policy 2007 and iii) Privatization Rules 2007. Mr. Sarker points out that many shortcomings were detected over the years while implementing the Privatization Policy.

One of the major problems has been the valuation ;of the SOEs. Mr. Sarker makes the point that those bidding for the SOEs that were privatized were more interested in the land than in running the enterprise itself. He observes that the bidding process is further complicated by the exorbitant prices fixed for many of the enterprises which tends to discourage potential bidders. Moreover, there is no time fixed to complete all the formalities, in particular, the valuation, which often results in depreciation of the value of machineries. Also, the title deeds and other relevant documents for the enterprise are not readily available. Mr. Sarker also points out that although the Privatization Commission is theoretically the sole authority for the privatization of SOEs, in many instances the parent ministries and corporations also get directly involved in the privatization process thereby creating much confusion.

Mr. Sarker concludes his paper by suggesting some measures that he believes will facilitate the process of privatization. He stresses the need for creating a Committee comprising of members from both the private sector and the government for valuation of the assets. A high powered industrial board is also suggested to be formed to oversee the performance of the ministry to make it more

accountable. Mr. Sarker further recommends a mechanism to monitor and review the privatization programme.

The third speaker this afternoon, is Ms. Lopa Rahman, the paper makes the point that good corporate governance helps to improve the efficiency of State Owned Enterprises and will thus facilitate the privatization process in Bangladesh. She discusses the role that SOEs plays in the national economy (they contribute about 2% of the GDP) and highlights the elaborate and intricate web of control over SOEs by the different ministries. She describes the many problems that result from the present structure and composition of SOEs Boards. Ms. Rahman also provides a brief account of the various legal and regulatory frameworks governing the boards of SOEs.

Her paper outlines the ways and means to strengthen corporate governance in SOEs. The, OECD Guidelines on Corporate Governance for State Owned Enterprises in 2005 and the progress reported by the OECD survey of 2008 made in most Asian countries - in terms of transparency and accountability are discussed. One of the major findings of this survey is that the functioning of the board still remains the major stumbling block in improving the performance of SOEs. Areas for further *reforms* have also been highlighted .India's example has been cited regarding the formulation and implementation of their Code of Corporate Governance for SOEs and the lessons Bangladesh can learn from the Indian experience.

Ms. Rahman then discusses briefly the different stages involved in the process of privatization and the problems faced during the privatization process of SOEs. She concludes by emphasizing the need for implementing the basic tenets of Corporate Governance during each phase of the privatization process namely (1) ensuring an effective legal and regulatory framework; (2) the state acting as an owner establishing a clear and consistent ownership policy; and (3) equitable treatment of shareholders (4) relationship with stakeholders (5) transparency and disclosure (6) responsibilities of the Boards of the entities before and after privatization.

A critical review of the history of Disinvestment and Privatization of Bangladesh will reveal a paradigm shift in the thought process of policy makers and donors. State Owned Enterprises were once considered imperative by the government to ensure employment, job creation, and to provide vital services to the populace at reasonable prices. At present, many regard SOEs as chronic failures and text book examples of inefficient management bureaucratic red tapism and wastage of tax payers' money. SOEs are being either privatized or in some cases closed outright (as in the case of Adamjee mills).

The privatization drive of the government is timely as it is in step with similar reforms being undertaken around the region to boost business competitiveness in a global context. However, the policy makers must temper their enthusiastic and at times over zealous drive for privatization of SOEs with caution. A critical appraisal is required regarding privatized SOEs. Have they been able to deliver as; per expectations? Has Privatization resulted in greater competitiveness, job creation, greater entrepreneurial drive and innovation? Although there have not been too many studies on Privatized SOEs, the few studies and analysis that have been conducted point to mixed results. At least 50% of the privatized SOEs have shut sown due to a variety of reasons.. With a few exceptions, privatized SOEs have not significantly improved on the performance of SOEs nor have they contributed

substantially to the economy. Rather many have contributed to enterprise closures, disemployment, and accumulation of liabilities with the banks and loss of revenue.

In the light of this evidence, the Government must adopt a pragmatic approach towards privatization. It should refrain from indiscriminate privatization-each SOE should be judged on its respective merit. Government should also implement Corporate Governance in SOEs- to make them more transparent and competitive-this in turn would boost the odds of privatized SOEs becoming profitable in the long run. Government should also be in close contact with the newly privatized SOEs- a proactive government involvement and assistance can minimize or in certain cases eliminate several of the obstacles faced by privatized SOEs. It is in the interest of the government and the nation that privatized SOEs not only survive but thrive. There is no debate regarding the concept of Privatization-the problem lies with the actual process involved. A well thought out systematic and holistic approach should be taken towards privatization of SOEs. This in turn would ensure Bangladesh becoming a truly competitive nation.

Let me conclude with a six point plan of action:

1) A high level task force, chaired by a respected person from the private sector, should be established as soon as possible. This task force should be asked to submit a report within two months providing a detailed Strategy on Privatization, including if necessary, the complete overhauling of the Privatization Commission.

2) The government should immediately seek the assistance of the World Bank and ADB in creating a pool of experts on Privatization. Training programmes, both at home and abroad, should be organized on a regular basis.

3) A monitoring and evaluation cell manned by international experts should be established to review the work on privatization on a sustained basis. This high level expert body should be in a position to advise the government on improvements and changes that may be required to be introduced from time to time in the work of the Privatization Commission.

4) The Boards of all SOEs should be restructured immediately. The Boards should be chaired by either experienced persons from the private sector or a retired civil servant who has the relevant experience and expertise. All SOE Boards should have an equal number of directors from the private sector and the government. The government should institute immediately a two day mandatory training programme for all directors serving on the boards of SOEs. This practice of mandatory training should continue once the SOE has been privatized.

5) The Privatization Commission should undertake road shows on a regular basis so as to make known to prospective investors the SOEs that are available for privatization. In this connection the Privatization Commission should remain closely in touch with developments in respect of privatization in other parts of the world, in particular, in South Asian region and adopt the latest practices geared to obtaining the best results.

6) SOEs that are privatized should be encouraged to do a share issue within two years of being privatized. During this two year period the performance of the privatized company should be closely monitored.

I would once again like to congratulate the Finance Adviser, the Chairman of the Privatization Commission and the Government of Bangladesh for today's seminar. I am confident that our deliberations will help to provide a fresh impetus to the Government's programme and policy on Privatization.

Thank you for giving me such a patient hearing.