

Panel Presentation
on
Privatization & Rehabilitation of Sick and Closed SOEs
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Respected Chairman of the Privatization Commission &
Chairperson of the Working Session
Ladies and gentlemen.

It is indeed a pleasure for me to get an opportunity to present a panel note on “Privatization & Rehabilitation of Sick and Closed SOEs” today. I thank Mr. Chairman of the Privatization Commission for the opportunity he has given to prepare the note. I am now taking the privilege to present my paper.

Most of the developed and developing countries of the world concentrate major focus in reinforcing the private sector as a key instrument of national economic growth. If we look at Europe as for example Britain, we can see Margaret Thatcher, the then Prime Minister prioritizing the free enterprise, competition and market economy intensified privatization program on a wider scale. To her, the public ownership of major industries meant that they would be sheltered from competition of the marketplace and as such would get gradually inefficient. For this, privatization programs were a priority to her.

She felt encouraged to mainly privatize National Freight Corporation (1980), part of British Aerospace (1981), Cable and Wireless (1981), British Oil (1982), British Rail Hotels (1981), British Sugar Company (1981) and Associated British Ports (1983). Plus this, all of the National Freight Corporation was sold to its employees, and the prices of shares rose so fast that those who chose not to buy regretted their decision. British Telecom was also sold in 1984 and privatization continued with the sale of the remainder of British Aerospace (1985), the National Bus Company (1985), Associated British Ports (1985), Jaguar (1984), some naval shipyards (1985-86), and the factories of the Royal Ordnance including British Airways were privatized in 1987. Rolls Royce, the British Airport Authority and the remaining 31.5% of British Petroleum were also privatized in 1987 including British Steel in 1988.

Her privatization program provided additional economic benefits other than improved efficiency and British government was able to raise 17 billion pounds revenue through the privatization process in between the period from 1979 to 1987. In order to achieve “particularly the kind of privatization which leads to the widest possible share ownership by members of the public, “portions of nationalized corporations were set aside to be sold to small investors. Stock was sold at artificially low prices to attract buyers. In most cases, only lucky investors could buy shares, which increased in value almost instantly. There were 3 million private shareholders in Britain when Thatcher took office; there

were 11 millions when she left it. There are valuable lessons to be learnt from the British privatization program.

In Asia, Malaysia has become one of the leading industrial countries in the South East Asia by the reinforcement of the private sector with an emphasis on privatization of SOEs. The fact is, initially Malaysia had no manufacturing expertise, no capital, no management skills and no knowledge of the markets. The only way to industrialize was to invite foreign industrial investors to invest in labour intensive industries in Malaysia.

Dr. Mahathir Mohamad, the architect of modern Malaysia about the success of privatization in a key note address at the first Bangladesh-Malaysia Business Forum held in Dhaka in 2004 stated –

Quote –

“The world had not yet taken to privatization when Malaysia launched its privatization plan. There was really no model to follow and no experience to fall back on. The Privatization would obviously have to be done by trial and error. But right from the beginning the government was concerned over the effect on the workers and their jobs. On the other hand, the private sector must earn a decent return on their investments. The public too would not like to be burdened with high fees and tolls. All these three conflicting demands have to be taken into account if privatization is to succeed. And so, the private company taking over a government function must ensure that workers are not laid off and their pay perks should be equal if not better than when they were getting from the government. In the event most of the companies offered better pay and bonuses to their workers so that many workers in government owned utilities demanded they be privatized. The public must accept that for the better facilities they are going to be provided with, they have to pay, still they would not willingly to pay if the charges are too high. To reduce the charges the government transferred to the privatized entities land and assets at nominal price sometimes at only one Malaysian Ringgit. Sometimes soft loans are provided. The government is not subsidizing the company. It is subsidizing the public, the users. The company taking over should make reasonable profits. The rates of charges or tolls must be included in the bid. The basis for proposing to charge these rates must be shown. If unreasonable then the bids may be rejected. Bidders will have to be careful not to overcharge or they will not get the project. Usually the bid is for a period of 30 years. At the end of it the project goes back to the government. Obviously the company should be able to recover its capital outlay and make a reasonable profit within that time. The company may make a bid again if the government wants the private sector to continue to operate the facility”.

The above message of Dr. Mahathir Mohammad about the privatization of SOEs is clear. In Malaysia, the SOEs are being privatized mere on long term lease basis at a mere token price. The private entrepreneurs sometimes operate such mills/projects efficiently and payment is given to the government in due time from the income of the projects. The projects failing to pay are taken back by the government outright.

If we look at the regional scenario of our neighboring countries, we can see in South Asia that the “privatization process” is progressing fast based on the appropriate policy guidelines and need based strategies. The South Asian regions also prioritized the

privatization program and gained desirable success. The South Asian region raised \$14 billion from 123 transactions between 2000 and 2006, representing 5 percent of the total for all developing countries. India accounted for 52 percent of regional value, and Pakistan for 46 percent. Over half of South Asia's regional value came from infrastructure, with telecommunications generating nearly \$5 billion- 70 percent of the sector's total and 36 percent of the region's total value. The proceeds from privatization transactions per year (US\$ in millions) in South Asia is charted below:

(US \$ in millions)

Region/Country	2000	2001	2002	2003	2004	2005	2006
South Asia	61	486	2289	1297	4663	3799	1649
Afghanistan	--	--	--	--	--	40	40
Bangladesh	13	--	--	--	--	50	--
Bhutan	--	--	--	--	--	--	18
India	33	460	1717	836	3852	63	458
Nepal	15	--	5	--	--	--	--
Pakistan	--	19	562	399	811	3646	1128
Sri Lanka	--	7	6	62	--	--	5

However, the above table shows that the performance of Bangladesh in privatization has been poor though Bangladesh took-up privatization program of SOEs on a priority basis in mid seventies and eighties. Pakistan and India also are making tremendous progress in privatizations process adopting best practices. Even the war torn Afghanistan also has been able to achieve better success in privatization compared to Bangladesh.

So far as Bangladesh is concerned, the first round privatization was put to effect following the post independence thrust on economic growth and the second phase took place in the first half of 1980 through de-nationalization process covering Jute and textile Mills originally owned by Bangladeshi citizens. The Textile sector in the pre liberation period was vibrant and growing sector geared to the needs of the hand loom sector and also exporting yarn to regional countries like Thailand, Singapore, Malaysia, Indonesia, Hong Kong and grey fabrics to Europe. The installed capacity was over 250,000 spindles and 5000 mechanized looms.

After the independence of Bangladesh all the textile mills were nationalized under President Order 1972 placing its management under BTMC. During nationalized period, BTMC failed to keep the mills in good working conditions due to the lack of BMRE and widespread mismanagement for which such units started making financial losses leading to the huge liquidity-gap. At the time of de-nationalization in 1982-83 mills were transferred back to their original owners with the condition that a joint audit would be carried out to determine the liability to be transferred to the mill owners. The joint auditors were flouted by BTMC and as a result the joint audit liability of the de-nationalized mills could not be settled until 3rd October 2001. The de-nationalized textile mills entered into tri-partite agreement for transferring BTMC created commercial bank liabilities to the respective de-nationalized mills. The unreasonable delay of over 18 years

due to the reluctance of BTMC to accept the joint audited figures made most of these de-nationalized mills sick in the process as they were considered unviable. Due to this huge liability reflected in their balance sheet, these mills could not be upgraded through BMRE and they ultimately faced closure owing to failure in meeting worker's liabilities which were considerably large due to age of mills and longer tenure of service. It was therefore, difficult for mill owners to salvage these mills as denationalization program financially crippled them.

Based on the insight of practical observation, it was seen that de-nationalization process in Bangladesh was erroneous at the start as it encouraged the intrusions of vested interests followed by the absence of appropriate policy and effective code of corporate governance indeed there was an attempts to frustrate the whole denationalization process.

The SOEs in recent years have been exposed to exponential deterioration in their performance not just due to the general degeneration in corporate governance and depreciation in their managerial capacity but the complete absence of appropriate policy.

However, in the backdrop of continual sickness and decaying conditions of state owned enterprises, Government in an effort to intensify rescue operation felt a crucial need to constitute Privatization Board in 1993 and subsequently reconstituted it as a Privatization Commission in 2000 to give the privatization program an institutional shape as a statutory body delegating adequate authority to appropriately deal with the situation. It is a matter of satisfaction that Govt. also designed regulations, policies and law & Acts to help-put the privatization program in a better frame work. It is also encouraging to note that Govt. enacted provisions to take over all financial liabilities of the SOEs being privatized including the waiver of the part amount of the principal loan-amount, in-cases where applicable. It is also a indeed a positive sign and does speak highly of the sincerity of the Govt. in implementing the privatization program with transparency. It should be borne in mind that Govt. is not privatizing the SOEs for maximizing profit but assuming this noble obligations to bolster economic growth by way of increasing operational efficiency and good management system based on the compliance of the code of corporate governance.

In fact there lies a substantial difference between the on going privatization and the past de-nationalization process.

Firstly, in the de-nationalization process, the mills were transferred back with huge financial liabilities including the workers benefit but in the ongoing privatization process govt. has taken over all financial liabilities of SOEs for settlement.

Secondly, the mills under de-nationalization process, transferred back to the original owners but in the ongoing privatization process the mills are transferred to the highest bidders through tenders or through other sale methods, in force.

Thridly, in the de-nationalization process, most of the units could not undertake BMRE and became sick and faced virtual closure for the settlement of financial liabilities

imposed by BTMC on other units including the payment of workers benefit but the ongoing privatization process are free from such financial burden.

Records reveals that after the establishment of the Privatization Board and later on its reconstitution as Privatization Commission, 74 SOEs were transferred/sold to the private sector. Out of these enterprises 54 were transferred through outright sale by open tender and other 20 were sold through the process of offloading shares. The privatized enterprises mostly constitutes the sectors like textiles, jute, manufacturing, sugar, fish processing, chemicals, food, leather and banking etc.

However, the question still remains whether or not the Privatization Commission has been able to achieve significant progress. There is little evidence to suggest that privatization of SOEs has yielded significant benefits to Bangladesh economy in the way of enhanced output, employment, productivity, profitability, investment or innovation in the affected enterprises for poverty alleviation . There is no doubt, some privatized enterprises indeed did registered gains. Whilst more definitive empirical work needs to be done on privatization outcomes, there are few grounds to suggest that privatization has generated a universal trend which is measurable in improved macro-performance in the manufacturing sector or significant improvement at the enterprise level. We, therefore, need to know how much more about and why privatized enterprises have not been able to respond to the expectations underlying the privatization process before we embark on a further phase of privatization which should not suffer the same fate of the denationalized units.

The privatization program of Bangladesh if I correctly understand should get the priority in each of its phases (1) The list of new litigation-free SOEs are to be transferred to Privatization Commission without any interruption (2) SOEs under process need to be privatized quickly within a time bound process (3) The non-performing privatized SOEs need to be rehabilitated providing adequate regulatory and financial support.

To make the privatization program effective and speedy implementation, in view of our personal painful experience of denationalization, I feel encouraged to suggest some ways to make the process more effective.

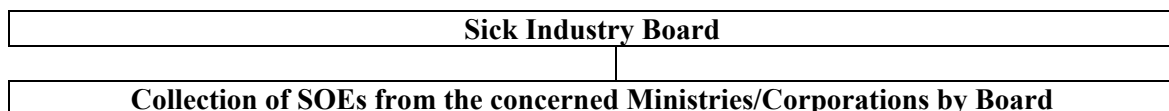
First phase of the privatization program

Privatization Commission would be better able to set a good record only when it gets good number of problem-free SOEs from the concerned Ministries at regular interval and for this, I would suggest to constitute a “**High Powered Sick Industry Board**” headed by the Principal Secretary of the Head of the Government comprising top officials of Govt. including 50% representative from the relevant private sectors to assume the following vital functions:

1. The Sick Industry Board shall be delegated with the highest authority to assess, evaluate the performance of SOEs and send the list of new SOEs to the Commission for privatization.

2. The Sick Industry Board shall hold meeting at least once in every month to assess the performance of the SOEs owned by Ministries/Corporations analyzing the audited balance sheet submitted by the concerned Ministries/Corporations.
3. To obtain reports from the Ministries/Corporations in a prescribed reporting format at regular interval on the performance of SOEs owned by Ministries/Corporations to assess, evaluate the marketing, economic, management and operational performance.
4. To conduct study on SOEs on deductive methods and make reports for assessment.
5. To make the list of SOEs for privatization and send it to the Commission for implementation.
6. To receive performance reports regarding the privatized SOEs from the Commission.
7. To constantly check the financial statement of the SOEs
8. To have the case study report prepared and review it.
9. To suggest measures for the rehabilitation of the running, sick and closed SOEs to the highest authority of the Government based on the nature of problems being encountered.
10. To conduct study of privatized SOEs and suggest measures to the highest authority of the government for necessary action.
11. To make the Ministries/Corporations accountable for the submission of audited balance sheet and financial statements to the Board
12. For the sake of smooth running/operation of the de-nationalized closed SOEs the sick Industry Board would consider recommendation for financial assistance.
13. To consider providing loans for BMRE to make the de-nationalized closed mills which were transferred with BTMC Commercial Bank loan liabilities through tripartite agreements and those who have taken steps for re-payment of such loan liabilities.
14. To consider setting up of new textile industry by using their infrastructural facilities if it is not possible to make the closed textile mills profitable.
15. To find the reasons for non-payment of loans regularly by the Mills Management of those de-nationalized units which were transferred to their previous ownership and to take necessary steps for payment of their loans regularly and satisfactorily.
16. The entrepreneurs of private SOEs shall report to the Sick Industry Board the problems they are facing, if any and the Board shall react within a reasonable time-limit.
17. The Sick Industry Board may act as the organ of “one stop service” to the address the problems faced by de-nationalized and privatized SOEs.

Flow chart of the workings of Sick Industry Board



	Evaluation and assessment of SOEs by Board
	Transmission of new SOEs list to Privatization Commission for privatization
	Assessment/Evaluation of performance of the privatized SOEs by Privatization Commission
	To suggest recommendations to the Board for resolution by Privatization Commission

It is worth mentioning here that one of the denationalized Textile Mills located in Chittagong namely ‘**Asiatic Cotton Mills**’ has been reverted back to Govt. after long 20 years of denationalization which would not have happened if the permanent ‘Sick Industry Board’ have been put in place by Govt. The need of a Sick Industry Board is therefore urgent.

Industrial sickness is not unique to Bangladesh. There is still an element of discrimination between Public and Private sectors e.g. in the Jute sector – where due to dual policy and discrimination, we have run the sector to the ground. Most of the de-nationalized Jute and Textile Sectors are closed today and need to be urgently addressed in phases, to make them productive again.

- i) Those units whose liabilities need to be restructured should be done with the terms offered by the Privatization Commission.
- ii) Those Jute Mills which can not be salvaged may be considered by govt. to be converted into export oriented Textiles Mills to fill the gap in the requirement of the RMG sector.

Second phase of the privatization program

Upon the receipt of the SOEs for privatization, Privatization Commission through the Sick Industry Board may take following steps within the rigid time frame.

1. To order the enlisted valuer firm to prepare the valuation report within 60 days.
2. The valuation committee shall finalize the report within 15 days and the valuer firm may compile valuation profile accordingly within 10 days.
3. The valuer firm may enjoy full freedom to make valuation as per existing policy regulations and directions of the Sick Industrial Board.
4. To float tender as per existing system.
5. Upon the payment of one installment, the title deeds may be handed over to the concerned loan giving agencies, if necessary through tripartite agreement to be concluded among buyer, Privatization Commission and financial institution.

Third phase of the privatization program

There may be **‘internal monitoring and evaluation cell’** in the Privatization Commission to assess the performance of the privatized SOEs and makes case study-report for its onward transmission to the Sick Industrial Board for necessary action. Below are the terms of reference suggested for the internal monitoring cell of the Commission for assumption:

1. To make a study plan to evaluate the performance of the privatized SOEs and to make study report, analyze financial statement.
2. To suggest recommendations to address them.
3. To ensure the compliance of the code of corporate governance.
4. To submit the performance report to the Privatization Commission for its onward transmission to the Sick Industrial Board for necessary action.

Reconstitution of the Privatization Commission

The Commission of the Privatization Commission may be re-constituted taking 50% members from the private sector preferably from the association of different sectors i.e. Jute, Textile and Leather to ensure the transparency and accountability and experience.

Conclusion

It is not that the job of the Privatization Commission merely transferring the state owned enterprise (SOEs) to the buyers is over rather it is bound by commitment to extend all post transfer supports to the privatized SOEs to make it economically feasible, commercially profitable and technically sound. What is crucial for the Privatization Commission is to closely review the performance of the privatized SOEs taking appropriate measures and it is necessary to design a sound study plan to systematically & comprehensively assess the performance of the privatized SOEs.

Our Govt. can therefore consider establishing a ‘Sick Industry Board’ as India has so successfully done, on an urgent basis. Industrial Assets, Public or Private, can be systematically handed over to the Private Sector and rehabilitated into production to generate new employment and operational efficiency. Industrial assets whether in the Private or the Public sector are ultimately National Assets. We must take the bold conscious decision to adopt and manifest the concept of “Bangladesh incorporation” as done by Malaysia based on the successful model of ‘Japan incorporation’- where Private and Public sector worked in close collaboration in SMART (Specific, Measurable, Achievable, Realistic, Time bound) partnerships for National Economic Development. Let me conclude by saying that let us not again repeat the mistakes of the denationalized process which led the Jute & Textile Mills into a collapse.

Thank you very much for your patient hearing. Please feel free to convey your reaction if any and I am here to take them.

Thank you all.