

## CHAPTER 14

### PRIVATE SECTOR DEVELOPMENT

The contribution of private sector to the total investment in Bangladesh economy is remarkable. Out of the 25 percent investment-GDP ratio in the provisionally estimated GDP of FY 2005-06, the share of private investment has been computed to be 18.67 percent. Currently 75 percent of total investment in the national economy is coming from the private sector, which has a significant contribution in the GDP growth of Bangladesh economy.

Government has brought reforms in the privatisation guidelines to strengthen, galvanise and modernise the privatisation process. Government is resolved to privatise the state-owned entities in a fast and transparent manner, keeping in view the welfare of labourers and employees. In addition to the existing production sector, government is persistently encouraging private sector involvement in various service sectors including power, energy, mining, transport and communication, education and healthcare.

#### **Developing a Private Investment -Friendly Environment**

Government has put in place necessary institutions and infrastructure to create a private investment-friendly environment. Outstanding growth of readymade garments (RMG) and knitwear industry in the private sector has brought dynamism in the manufacturing sector, and that has worked as the catalyst in creating an investment-friendly environment in the country. As a result, this sector has attracted foreign investment.

#### **Formation of Privatisation Commission**

To strengthen the role of private sector and establish private sector as the driving force of development, the Government has been privatising the state-owned enterprises (SOEs) and other commercial entities in phases. Government has adopted the policy of facilitation in the management of industrial and commercial activities rather than being directly involved as owner or regulator. The objective of privatisation is to make the private sector buoyant so as to accelerate country's industrialisation and economic prosperity, and generate more employment opportunities for the workforce. Another objective of privatisation is to revive the closed or sick industries by reducing the burden of losses accruing from running the SOEs.

The Government has a policy decision to sell the SOEs, entirely exempt of any outstanding liabilities. All the existing liabilities of enterprises for sale would rest with the Government, and buyers would not have to shoulder any liabilities. Government has also decided to sell the government-owned shares of the selected companies on the stock exchange floor at par with their current market prices. Government will not assume responsibility of any outstanding liabilities of the companies in regard to the sale of shares. Extensive changes have been made in the existing

directives for valuation of the SOEs. To determine realistic market-based prices of the enterprises, measures have been adopted to ensure valuation in the light of international accounting standards.

**Box 14.1: Privatisation programme for various organisations**

Implementation of privatisation programmes continues through the current fiscal year 2005-06. Privatisation activities are being conducted by the Privatisation Commission on the basis of consultation with the concerned ministries. Four industrial organizations/companies have been privatized in this fiscal year up to 30 June 2006. With this, sixty seven entities have been privatized since inception of the Privatization Board (Now Privatization Commission) in 1993. Of this, forty six enterprises are privatized through direct sale and remaining twenty one are through floating share in the market. The sale process of another five entities is finalized by circulating the letter of intent to the respective clients in order to transfer it to the private owners. Besides, necessary measures have also been taken in order to sell 67.26% share of an important nationalized commercial bank, Rupali Bank Ltd.

**Role of the Board of Investment (BOI)**

To raise the efficiency of official works use of information technology has been ensured, having reclassified the activities of the Board of Investment with the goal of extending highest possible assistance and higher quality service to both local and foreign entrepreneurs in establishing industries.

Registration of private investment projects (local & foreign) with the BOI has increased by 164 percent during the FY 2005-06. Likewise, during the calendar year 2005, the amount of foreign direct investment (FDI) in Bangladesh was US\$ 845 million, which is 84 percent higher than that in 2004. In FY 1991-92 the proposed amount of investment was Tk. 660 crore against 258 private project proposals. This amount stood at Tk. 43356 crore from 1889 project proposals in FY 2005-06.

**Box 14.2: Investment projects/proposals registered with the BOI**

Domestic investment projects registered with the Board of Investment (BOI) in FY 2005-06 increased by 19.4 percent. During this period a total of 1754 domestic investment project proposals worth about Tk. 18370 crore were registered. A sectoral analysis shows that most of these investment proposals were in the manufacturing sector, such as textiles, chemical, engineering and agro-based products. The Board of Investment has registered a total of 1,469 domestic manufacturing enterprises during the FY 2004-05. Total amount of proposed investments in these enterprises was Tk. 14005 crore. In FY 2005-06 foreign project (foreign and joint venture) registration increased by 12.5 percent. The value of total 135 foreign/joint venture investment proposals is Tk. 24986 crore. Principal sectors of the registered foreign/joint venture investment proposals include service, textile, chemical, engineering and agro-based product.

Source: Board of Investment (BOI).

### **Registration Statistics of Local Investment Projects**

During the last 5 years from FY2001-02 to FY2005-06, a total 9,823 local investment projects worth Tk. 66,379 crores was registered at BOI which is 122% higher than the proposals of previous five years. About 80 percent of those local investment projects have either been implemented or are at various stages of implementation.

### **Development of the Capital Market**

To make the capital market more efficient, effective and reliable Bangladesh Securities and Exchange Commission (SEC) was established in 1993. The SEC continues to introduce reforms for the development of capital market and protecting the interests of investors by establishing transparency in the capital market. For the development and extension of the capital market, 'Corporate Governance Guidelines' has been introduced in FY 2005-06. A detailed review of the capital market has been presented in chapter-5 of this Review.

### **Privatisation Activities in Various Sectors of the Economy**

#### **Infrastructure Sector**

##### **Bangladesh Private Sector Infrastructure Guidelines**

Government has formulated Bangladesh Private Sector Infrastructure Guidelines to foster private sector participation in the projects for the development of infrastructure of the country. Detailed description of procedures for undertaking infrastructure projects in various sub-sectors on private initiative has been provided in the guidelines. The sub-sectors include, among others: telecommunication; power generation, transmission and distribution services; development of ports; building highways and expressways; constructing bridges; tunnels and flyovers; exploration of oil and gas production- transmission-distribution; development of airports and terminals, tourism; development of industrial estate; health and education; waste management and environment, etc.

#### **Energy and Power**

##### **Hydrocarbon Unit**

Since its formulation, Hydrocarbon Unit is playing a very important role in the upstream petroleum sector of the country. After the completion of the "Resource Assessment 2001", the "Gas Reserve Estimation Study 2003" has been completed recently. According to this study, the total amount of gas reserve is 20.50 TCF. Of this, the total production of gas was 6.50 TCF up to June, 2006 and at the same time net recoverable reserve was 14.00 TCF. Bangladesh Optimal Gas Utilisation Study conducted by the Hydrocarbon Unit was highly appreciated by the policy-making level of the petroleum sector of the country. For this reason, a follow-up study had been undertaken and completed. This follow-up study examines different issues and risks involved in regional co-operation in energy. A mini data bank has been established in the HCU to handle

some selected data of the energy sector like cultural data, production data, cost database of PSC activities and resource data etc. HCU is working as the technical arm and think tank of the Energy and Mineral Resource Division, and offering information-based technical opinions about the operations of the production sharing contracts with the foreign oil companies.

### **Power Sector**

To be able to provide access to electricity to all by the year 2020, government has been encouraging private involvement in the power sector. Consequently, the role of private sector in electricity production is on the rise. Having realised the importance of private investment in the sector, the policy to involve private sector in power generation was adopted by the Government in 1996. To separate the power transmission system, Power Grid Company of Bangladesh (PGCB) and Dhaka Electricity Supply Company (DESCO) were formed in 1996 under the Company Act of 1994, as part of the power sector reforms.

On the basis of BOT, the PDB has signed a contract with BON Consortium Power Co. Ltd. in March 2006 for construction of the Meghnaghat 450 MW Combind Cycle Power station (2nd phase). It is expected that power generation will be started commercially within 37 months since the signing of contract. Besides these, the installation of a number of 10-30 MW private power plants is underway.

### **Information and Communication Technology (ICT)**

The government has given special emphasis on the 'National Policy on Information and Communication Technology (ICT)' to ensure participation of the private sector alongside the Government in the development of ICT. The objective of this policy is to create an ICT oriented society in the country. Some important steps have already been undertaken to attract private sector, in the light of the National Policy on Information and Communication Technology.

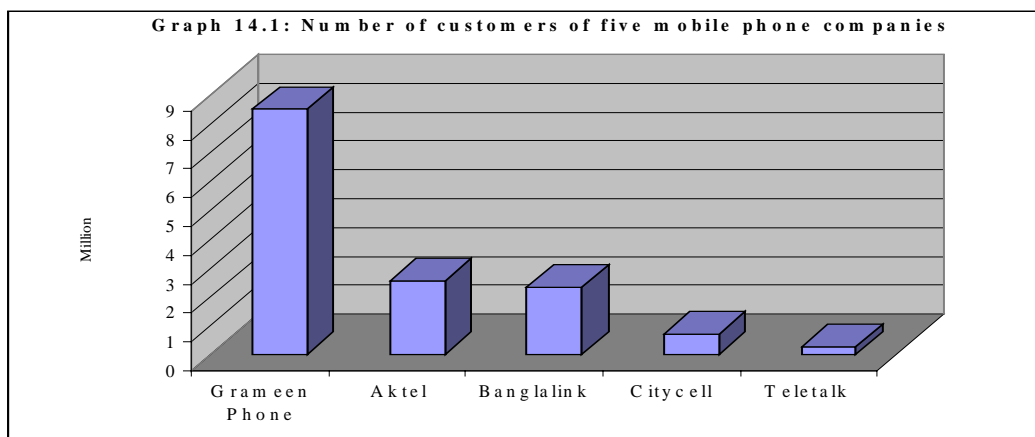
- ♦ **ICT Incubator Center:** For development of the software industry an 'ICT Incubator Center' has been established at Karwan bazar in Dhaka. Uninterrupted power supply along with facilities for high-speed data transmission has been ensured here. Currently, about 48 enterprises are working to develop softwares and ICT-enabled services at the ICT Incubator.
- ♦ **High tech Park:** The government has decided to build a high-tech park in Kaliyakair Upazila in Gazipur district to promote establishment and growth of knowledge-based industries in ICT, electronics, telecommunication, engineering, etc. A feasibility study regarding the high-tech park has done by the Bangladesh University of Engineering And Technology (BUET).

### **Telecommunication Sector**

Government granted permission to Bangladesh Telecom Private Ltd. (BTL) to introduce radio-trunking, cellular radio telephone, naval radio telephone network, and paging facilities for the first time in 1989 to spur private investment in this sector. The segment of mobile telecom

operation of the BTL's license was later handed over to Pacific Bangladesh Telecom Ltd. Subsequently, three private operators, Grameen Phone Ltd., Telecom Malaysia International (Bangladesh), and Sheba Telecom Private Ltd. had been awarded license in 1996 to market digital cellular mobile phones. After the formation of the Telecommunication Regulatory Commission (BTRC), those licenses/contracts were renewed under the Bangladesh Telecommunication Act 2001. The Commission granted Mobile Telecom Operator License to BTTB, which was subsequently revised to form a separate entity under the name of 'Teletalk', and has already become operational. The number of subscribers of the 5 private cellular mobile companies in the country was about 14.2 million as of June 2006. To meet the increasing demand for telephone, 15 private companies have been awarded licenses for providing fixed telephone services in a competitive environment. The fixed telephone sector is now open for investment by private domestic, foreign, and Bangladeshi expatriate investors. Some of them have already started making investments. As a result, employment opportunities have been opened up for thousands of the unemployed.

Four private cellular mobile companies are operating competitively. The number of subscribers of the 4 private mobile operators is expected to exceed 20 million from the present 14.20 million (June, 2006) in the next one year. In 2001, the mobile tele-density was 0.58 which rose to 10.0 in 2006 (June, 2006). To generate competition on the telecom market and to help deliver low-cost telecommunication service to people, Teletalk Bangladesh Ltd. has issued license to market mobile telecom service. Already the company has started offering mobile telecom service. As a consequence, mobile phone call charges are expected to decline, making it affordable to ordinary citizens. The numbers of customers of five mobile phone companies are presented in the following graph.





## **Transport Sector**

### **Air Transport**

According to Privatisation Guideline Policy, Civil Aviation Authority has planned to privatise the non-regulatory operations of the airport. Meanwhile, a local private enterprise has been appointed to conduct the washing & cleaning works of Shah Amanot International Airport. Besides, there is a plan to appoint local and foreign institutions to manage other operations of the airport through outsourcing. The cargo handling and other non-regulatory operations of the Zia International Airport are being planned to be conducted through private companies.

### **Bangladesh Railway**

The process of involving private sector in commercial and other activities of Bangladesh Railway started from 1997. Currently (June, 2006) commercial activities of total 63 mail/express and local trains and on-board services of 10 of intercity trains have been given to private companies. In order to give 'On Board Services' of more 8 mail/express and local trains have been floated recently as part of the process

### **River Transport**

The National River Transport Policy of the Government specially encouraged private sector participation in the development of ports. To encourage the private sector investment, BIWTA has taken necessary steps to facilitate the physical infrastructure development of inland river port, construction of container terminal and other related facilities through private sector participation on the basis of BOT. At present, different private sector entities, including the stevedore, and the clearing and forwarding agents, and equipment handling operators are engaged in the operational activities of Chittagong port. To enhance the efficiency of cargo handling at Chittagong port, leasing out of various operating equipment and construction of ICD (Inland Container Depot) are being encouraged by CPA. Fifty two stevedores and about 3000 C&F agents, licensed by CPA are discharging the functions of loading, unloading, and releasing cargo at the port. Also, private contractors are engaged in handling containers from ship-to-shore-to-yard, and removing unloaded ones from the delivery point. As part of the privatisation policy, CPA in 2001, leased out its own 3.82 acre of land for building a 300 truck/lorry-capacity terminal beside the port connecting road, on BOT arrangement for 15 years. The Sadar-ghat jetty of the port, which remained unused for a long time, has been leased out to private sector for 25 years. Furthermore, special berths, e.g. cement clinker jetty, KAFCO ammonia jetty, KAFCO urea fertilizer jetty, etc. are being used by the concerned companies/enterprises. Eleven private ICD surrounding the Chittagong port have started their operation since the inception of private ICD building rules.

## Banking and Insurance

Currently, a total of 43 privately owned general insurance companies and 17 life insurance companies are operating in the country. In addition to the privately owned general and life insurance companies, state-owned general and life insurance companies also are in operation. Apart from discharging its regulatory functions, the Department of Insurance realises various types of fees, fines and other levies from the insurance companies on behalf of the government. It appears from the data of revenue collection that the revenue collection from insurance sector rose to Tk.7.54 crore in FY 2004-05 from Tk. 1.80 crore in FY 2001-02.

Premiums realised by the state-owned Sadharan Bima and 43 private general insurance companies together stood at Tk.684.50 crore in 2004 compared to Tk. 594.47 crore in 2003. Total premium income from general insurance increased by 15.14 percent compared to the previous year. Table 14.1 below shows the break-up of income from premiums for both private and state-owned general insurance companies.

**Table 14.1: Premium income from General Insurance**

(in Crore Tk.)

Total Premium				Share of public sector	Share of private sector	Growth rate		
	Public sector Sadharan Bima Corporation	Insurance companies of private sectors	Total			Public sector Sadharan Bima Corporation	Insurance companies of private sectors	Total
2001	76.00	422.92	418.92	15.23%	84.77%	23.09%	15.97%	17.01%
2002	81.86	453.46	535.32	15.29%	84.71%	7.71%	7.22%	7.30%
2003	76.66	517.81	594.47	12.90%	87.10%	(-) 6.35%	14.19%	11.05%
2004	77.86	606.66	684.50	11.37%	88.63%	1.57%	17.16%	15.14%

Source: Insurance Directorate, Ministry of Commerce

Premiums income by the state-owned Jiban Bima Corporation and 17 private life insurance companies together stood at Tk.1532.23 crore in 2004 compared to Tk. 1250.72 crore in 2003. Total premium income from life insurance increased by Tk.281.51 crore or 22.51 percent compared to the previous year. Table 14.2 below shows the break-up of income from premiums for both private and state-owned life insurance companies.

**Table 14.2: Premium income from Life Insurance**

(in Crore Tk.)

Total Premium				Share of public sector	Share of private sector	Growth rate		
	Public sector Jiban Bima Corporation	Insurance companies of private sectors	Total			Public sector Sadharan Bima Corporation	Insurance companies of private sectors	Total
2001	150.00	668.09	818.09	18.34%	81.66%	-12.45%	23.51%	16.59%
2002	179.00	834.83	1013.83	17.66%	82.34%	19.33%	24.96%	23.93%
2003	152.00	1058.72	1210.72	12.55%	87.45%	-15.08%	26.28%	19.42%
2004	197.00	1335.23	1532.23	12.85%	87.14%	29.61%	26.12%	26.56%

Source: Insurance Directorate, Ministry of Commerce.

In 2004 the total amount of investible life fund of the Jiban Bima Corporation and 17 life insurance companies was Tk.2698.58 crore which was Tk. 2771.63 crore in 2003. According to the existing insurance law, 30 percent of the life funds are invested in the government or government approved bonds/securities and 70 percent of the life funds are invested in shares, debentures, unit fund of different capital market institutions, time deposit of different banks and real estate.

### **Education Sector**

The government has been offering extensive support to primary, secondary, vocational, madrasah and higher education fields of study in the private sector alongside the public sector, to promote the quality of education to ensure 'Education for All'. Private sector participation in education is being supported to minimise pressure on public expenditure as well as to lessen our dependence on foreign countries for education. This initiative encouraged the establishment of many schools, colleges, madrasahs and universities in the private sector.

Government spends about Tk.2000.00 crore as salary subvention for 4,74,563 teachers and employees of about 28,115 post-primary non-government educational institutions of the country encompassing schools, colleges and madrasahs. This expenditure is about 79 percent of total revenue budget allocation of the Ministry of Education. It is worth noting that Tk.2089.33 crore has been allocated for financial assistance to teachers and employees of the non-government educational institutions in the revised budget of FY 2004-05.

Measures have been taken for providing stipend to female students at secondary and higher secondary levels, along with financial assistance for purchasing books and fees for sitting in the public examinations with a view to empower women and increase women's participation in socio-economic activities. Fees for female students up to class-XII have been waived. Besides these, 4 projects have been taken up at a cost of Tk. 200 crore to provide stipend to 25 lakh girls in FY 2005-06.

Bangladesh has a total of 1096 private general colleges in the country. There are 38662 teachers and 647061 students in these colleges. Currently, the number of non-government secondary schools in the country is 17,069. There are 1,99,234 teachers and 57,374 employees in these schools. There are 1087 institutions under the Technical Education Directorate and 8407 private Dhakil, Alim, Fazel and Kamel madrasahs in the country. Currently (June, 2006) there are 54 private universities in Bangladesh.



## **Health Sector**

Participation of private sector in health services continues to rise. To welcome participation of private entrepreneurs in the sector, government has been providing grants to various hospitals/clinics and other organisations from the revenue budget. Founding private medical colleges is being supported by the Government. Now there are 26 registered private medical colleges, 7 private dental colleges, and 1,160 private hospitals and 1,454 clinics with a total of 17265 beds in the country. Along with these, many modern diagnostic centres and specialised hospitals like National Heart Foundation, Cancer Hospital, etc. are making remarkable contribution to the health sector. NGOs are also playing a significant role in healthcare services. NGOs are closely involved in health, nutrition and HIV/AIDS program activities of the population sector.

## **Privatisation in Agriculture Sector**

A substantial change has been taken place in the agriculture sector following the implementation of different market oriented reforms programmes since mid 80s. The irrigation system is now fully privatised. Limited usage of HYV and degradation of these varieties have become the sources of principal impediment in boosting agricultural production. To overcome this problem, private participation in the production, processing and marketing of high quality seeds is receiving attention. Import and sale of seeds of all types of crops except for paddy, wheat, sugarcane, potato and jute are open to the private sector. Now private sector is also allowed to import hybrid seeds of paddy, subject to adherence to certain rules and regulations. Furthermore, private sector is allowed to produce and distribute mother seeds and other types of seeds upon having collected breeder seeds from research organisations. To encourage private participation in fertiliser management dealers/businessmen are allowed to sell fertilizers at any place in the country after collecting them directly from the factories and ports. The private sector network is now managing the import and distribution of fertilizer at administered prices.

## **Textile Sector**

The major share of the textile sector is in private hands. At present there are 222 spinning mills in the country of which 198 are privately owned. Besides these, there are 1422 weaving, 148342 handlooms, 700 knitting and knit dyeing, 300 woven dyeing -finishing and about 2000 local hosiery units in the country. Knitting and knit dyeing units served 80 percent textile of export oriented garment industry. Woven dyeing and finishing industries met the major share of domestic demand along with meeting the significant share of the demand of export oriented garments industries. Majority of the textile industry of the country mainly belongs to the private sector. Only 24 old textile mills are now under public sector, some of which have been put into production under service charge system. The year wise production of yarn and fabrics from 1993-94 through 2004-05 is shown in the table below:

**Table 14.3: Year-wise Production of Yarn and Fabrics in the Country**

Fiscal Year	Yarn (million kg.)			Fabrics (million metres)		
	Public sector	Private sector	Total	Public sector	Private sector	Total
1993-94	18.23	121.91	140.14	12.73	1035.27	1048.00
1994-95	18.13	135.24	153.37	4.65	1130.35	1135.00
1995-96	15.90	157.01	172.91	2.79	1262.43	1265.22
1996-97	7.39	186.76	194.15	0.78	1324.23	1325.01
1997-98	8.64	204.81	213.45	0.17	1394.83	1395.00
1998-99	10.02	186.76	228.84	-	1451.00	1451.00
1999-00	13.12	204.81	251.46	-	1630.00	1630.00
2000-01	15.81	186.76	271.57	-	1845.00	1845.00
2001-02	15.39	204.81	298.50	-	2050.00	2050.00
2002-03	9.35	330.65	340.00	-	2200.00	2200.00
2003-04	9.70	370.30	380.00	-	2750.00	2750.00
2004-05*	9.48	440.52	450.00	-	3100.00	3100.00

Source: Ministry of Textiles and Jute. \* provisional

### **Jute**

Currently there are 63 privatised jute mills under BJMA. There are 11211 looms in these mills, of this 10975 are standard loom and 236 are specialised loom. Out of 38 jute mills of BJMA at present 14 mills are in full and 14 mills in partial operation. The remaining 10 mills are closed. Of the remaining 25 mills, 5 mills are closed and remaining 20 mills are operation. Jute Diversification Promotion Centre (JDPC) was set up under the Ministry of Textiles and Jute for providing a package of extension and promotion services to the private entrepreneurs for promotion and development of enterprises producing high value-added diversified jute products. So far, 300 entrepreneurs have come forward to produce diversified jute products through JDPC. 150 of these entrepreneurs have been provided training in wet processing, design, product development, entrepreneurship, etc. Seven entrepreneurs with JDPC's support and funding from commercial bank have been functioning in full capacity and five more have started partial production with an investment of Tk 100 crore. Five more enterprises are now under construction, and another 15 enterprises have been considered for bank financing, the total amount of investment of those enterprises will be Tk. 300 crore.