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ACCOUNTING FOR PRIVATISATION IN BANGLADESH: TESTING WORLD BANK CLAIMS

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The World Bank and the IMF have encouraged many less developed countries (LDCs) to pursue privatisation policies. Development economists and World Bank reports claim this facilitates development by improving controls within enterprises and external regulation of financial markets acting on external accounting reports. This paper questions these beliefs. It compares the post-privatisation performance of companies in Bangladesh examined in a World Bank report with the authors' own research on the same companies. The World Bank report reported that the success of the privatisations established the case for more. In the research reported here, only one of the privatised companies was judged a commercial success, though the unavailability and dubious accuracy of accounting reports prevented any definitive assessment. Above all, the paper questions the narrow criteria adopted by the World Bank report—namely profitability—and the neglect of employment conditions, trade union and individual rights; social returns; and financial transparency and accountability to external constituents. Our evidence suggested that privatisation has not increased returns to society: privatised companies' contributions to state revenue declined in real terms and as a proportion of value added. Transparent external reports failed to materialise as required by law and there was evidence of untoward transactions affecting minority shareholders, creditors, and tax collecting institutions. Internal controls may have become more commercial but at the cost of declining employment, wages, quality of working life, and employee rights. The World Bank claims rest upon efficiency benefits trickling down to all but the effects of privatisation may have been a redistribution of power and wealth to the new owners. This paper argues that the IMF, the World Bank, and Western capitalist states have not provided the technical infrastructure and organisational capacity to execute their neo-liberal privatisation agenda, which rests on dubious socio-economic assumptions. Our unfavourable evaluation of privatisation in Bangladesh is not unique. It has been happening again and again around the world.

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Introduction

The World Bank and the IMF have encouraged many less developed countries (LDCs) to pursue privatisation policies (Cook, 1986; Cook & Kirkpatrick, 1995; Craig, 2000). It is difficult for many LDCs to resist (Cook, 1986, p. 24). To do otherwise might debar them from crucial concessionary finance from the World Bank, IMF, and northern aid donors (Craig, 2000). Some governments of LDCs have adopted privatisation programmes of their own volition but others have grudgingly done so under pressure from governments of industrialised countries acting through international agencies. Privatisation is usually a component of structural adjustment programmes based on notions of economic liberalisation, free trade, competition, privatisation, and limited government intervention (Cook, 1986, p. 18). The argument is that better resource allocation will emerge from institutional reforms including: greater market pricing; removing restrictions or quotas for imports; promoting the private sector; curtailing government activities through divesture or closure of state enterprises; and contracting out government functions to the private sector (Toye, 1994). The premise is that private, rather than public ownership, produces more efficient enterprises with benefits for consumers, employers, industry, and the nation (Adam *et al.*, 1992; Hanke, 1986; Rees, 1984; Furubotn & Pejovich, 1972; Donald & Hutton, 1998, p. 460; Flemming & Mayer, 1997, p. 4; Goodman & Loveman, 1991, p. 26; Ogden, 1995, p. 146, 1997, pp. 529–530; Shaoul, 1997). Crucially (but too often neglected) privatisation policies presume the improved accounting that underpins their prescriptions will materialise.

This paper questions these beliefs. Its comparison of the post-privatisation performance of Bangladesh companies examined in a World Bank report[1] with the authors' research on the same companies raises issues about the accuracy of the World Bank report, its policy prescriptions, and its criteria of effectiveness. World Bank claims that privatisation brings more transparent accounting and improved economic performance appear dubious, along with presumptions that it facilitates development goals such as increased investment, GDP, productivity and employment.

The paper initially describes the events in Bangladesh leading up to privatisation policies. Then it examines the arguments for structural adjustment programmes—especially privatisation, how donor agencies help devise such programmes, and how they are underpinned by assumptions of accounting changes. After briefly delineating the research methods, the paper compares and contrasts the researchers' findings with those in the World Bank report. The first part examines changes in accounting practices and economic performance revealed in an intensive case study of a soap firm (hereafter anonymised as PC). The second part examines the same issues in the other privatised firms in the World Bank report. The paper concludes by reflecting on why the two sets of research diverge, and policy implications, not least regarding accounting.

Privatisation in Bangladesh

The Bangladeshi government embarked upon privatisation programmes and public sector reforms following pressure from the World Bank and IMF (Cook & Kirkpatrick,