

DELEGATION OF AUTHORITY TO
PUBLIC ENTERPRISES IN BANGLADESH :

A CASE STUDY OF
BANGLADESH STEEL AND
ENGINEERING CORPORATION

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EXECUTIVE SUMMARY

Although public enterprises play an important role in the economic development of Bangladesh, their performance is considered far from satisfactory. Lack of adequate delegation of authority - both administrative and financial - is viewed to be one of the major reasons for this state of performance. In this study an attempt has been made to highlight the present state of delegation of authority to public enterprises in Bangladesh, its adequacy and implications and suggests a more rational structure of delegation of authority through the study of a specific area viz. procurement of materials from abroad. For this purpose two cases of procurement made by one of the major public sector corporations namely Bangladesh Steel and Engineering Corporation (BSEC) have been studied and analysed.

An attempt is made to highlight two categories of cases on the decision making authority regarding foreign procurement of materials by BSEC: (i) procurement made by BSEC with the approval of Ministry of Industries and (ii) procurement made by BSEC. Both cases unfold the story of decision making process at various stages of procurement during FY 1986-87. Both cases relate to Chittagong Steel Mills Ltd.

Issues identified in the study are as follows : (i) lack of adequate delegation of financial power at the appropriate level, (ii) right of refusal (ROR) system, (iii) lengthy and cumbersome procurement procedure, (iv) external pressure and (v) control of foreign exchange. Finally, the following recommendations have been formulated for delegating more authority to public enterprises, thereby improving their performance : (i) delegation of adequate financial power, (ii) rationalization of the system of ROR, (iii) simplification of procurement procedure, (iv) timely allocation of sufficient foreign exchange and (v) performance contracting.

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GLOSSARY

BADC	-	Bangladesh Agricultural Development Corporation
BCIC	-	Bangladesh Chemical Industries Corporation
BEXIMCO	-	Bangladesh Export-Import Company Ltd.
BJMC	-	Bangladesh Jute Mills Corporation
BOGMC	-	Bangladesh Oil, Gas and Mineral Resources Corporation
BPC	-	Bangladesh Petroleum Corporation
BSEC	-	Bangladesh Steel and Engineering Corporation
BSFIC	-	Bangladesh Sugar and Food Industries Corporation
BTMC	-	Bangladesh Textile Mills Corporation
BWDB	-	Bangladesh Water Development Board
C&F	-	Cost and Freight
CIDA	-	Canadian International Development Association
CI&E	-	Controller of Imports and Exports
CSM	-	Chittagong Steel Mills Ltd.
EPIDC	-	East Pakistan Industrial Development Corporation
ERD	-	External Resources Division
FY	-	Financial Year
GDP	-	Gross Domestic Product
HMS	-	Heavy Melting Steel
IDA	-	International Development Association
LC	-	Letter of Credit
LDC	-	Least Developed Countries
MIS	-	Management Information System
MT	-	Metric Ton
NFPE	-	Non-Financial Public Enterprise
OECF	-	Overseas Economic Cooperation Fund
PDB	-	Power Development Board
PFI	-	Public Financial Institution
PG	-	Performance Guarantee
PO	-	President's Order
ROA	-	Return on Assets
ROI	-	Return on Investment
ROR	-	Right of Refusal
SBA	-	Ship Breakers Association
STA	-	Special Trade Agreement
TIP	-	Trade and Industrial Policy
UN	-	United Nations
WES	-	Wage Earners' Scheme

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CHAPTER - I INTRODUCTION

Background of the Study

Public enterprises play an important role in the economic development of most of the LDCs. Originating partly from colonial heritage and partly from historical necessities, present dimensions of public enterprises in Bangladesh owe largely to ideologies of the state and development policy of successive governments. The constitution of Bangladesh envisages, among others, "State Ownership, that is ownership by the state on behalf of the people through the creation of an efficient and dynamic nationalised public sector embracing the key sectors of the economy". In spite of considerable disinvestment for the last several years, the number of public enterprises remains over 250 which contributes about 4.5 per cent of the G.D.P. (Annexure-A) and employs about a quarter of a million people.

Although public enterprises control the "commanding heights" of the economy, their operations remain far from satisfactory¹. According to an estimate, the value of total assets of non-financial public enterprises (NFPE) as of June 1982 was 9,661 crores and the average annual return on assets (ROA) for the period from 1975/76 to 1984/85 had been 0.5%. The situation, however, improved somewhat with ROA being a little over 2% and return on investment (ROI) a little over 1% for the year 1985/86, which by any standard is perceived as unsatisfactory². This state of performance is mainly attributed to lack of required operational freedom, lack of flexibility in pricing and marketing of products on the one hand and lack of a proper mechanism for accountability of management of the enterprises on the other. While public enterprise managers clamour for complete autonomy to manage their own house in the manner they consider best, government functionaries, on the other hand, point out the need for control of public enterprises in order to ensure that public goals are realised through socially acceptable means and that public resources are used to maximise desired social benefits. While autonomy is necessary to promote managerial efficiency and entrepreneurial dynamism, it presupposes a purpose in view and that purpose is what the manager has to be accountable for. Autonomy thus implies accountability. The purpose of accountability is to see that a public enterprise operates so as to attain its set objectives efficiently. Moreover, as a public enterprise uses public resources, it should be open to public scrutiny. Lack of accountability on the part of public enterprises may be partly attributed to the failure of the policy making authority to delineate the relationship between the government and public enterprises.

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1. Planning Commission: The Third Five Year Plan 1985-90, p.58
 2. M.H.Rashid : Performance Contracting : Case Study of a Public Enterprise in Bangladesh (1988), p.12

The relationship between the government and public enterprises is a subject on which there has been a considerable amount of discussion and debate in this country. Acts, ordinances and orders by which public enterprises are created provide the framework of inter-relationship between the government and public enterprises. The Bangladesh Industrial Enterprises (Nationalisation) Order, 1972 (commonly known as President's Order No. 27 of 1972) is the charter by which eleven public sector corporations were created for the purpose of control, supervision and coordination of the nationalised and abandoned enterprises of the respective sectors vested in them and for the establishment and development of new enterprises. These eleven sector corporations were subsequently reorganised into five sector corporations vide the Bangladesh Industrial Enterprises (Nationalisation) (Second Amendment) Ordinance, 1976. These orders/ordinances did not spell out in clear terms the relationship between the government and public sector corporations. As a result, successive governments from time to time issued various instructions and guidelines to regulate the public sector corporations. In May, 1976 Cabinet Division issued guidelines delineating the relationship between the government and corporations on the one hand and corporations and enterprises under them on the other. This was reaffirmed by Zaman Committee Report of 1983 (Report of the Committee for Reorganisation of the Public Statutory Corporations) duly approved by the government and published in the official gazette dated July 24, 1983. The salient features of the above guidelines were that the government would confine themselves to laying down the policies and goals and approve annual budgets, leaving the corporations free to operate but hold them accountable for their performance. But these guidelines were not implemented till recently. As a result, ambiguity and multiplicity of controls with consequential overlapping of jurisdiction and interferences have restricted necessary autonomy and jeopardised accountability.

The Industrial Policy of 1986 stated that sector corporations be given operational freedom for improving their operational efficiency and economic viability. The Public Corporations (Management Coordination) Ordinance, 1986 (Ordinance No. XLVII of 1986) provided a policy framework for operation and management of the corporations. It created a high powered inter-Ministerial Council consisting of Ministers in-charge of Ministries of Finance, Planning, Industries, Energy & Mineral Resources and Commerce for better management and coordination of the activities of the public corporations. Increased authority has been delegated to the public corporations in respect of production, planning, procurement, contracts, personnel, pricing etc. It is yet to be seen how the increased delegation of authority has been implemented and how far it has influenced the performance of the corporations.

From the foregoing discussion it is evident that a clearer guideline for determining government-corporation relationship has been prescribed and greater authority has been delegated to the corporations. But are the powers delegated to them adequate? Do the corporations have ability to exercise the authority given to them? Are the Ministries behaving the way desired? These are some of the questions that agitates the minds of researchers and administrators of public enterprises.

The present case study is based on the hypothesis that the performance of public enterprises is being adversely affected for lack of adequate decision-making authority.

Objectives of the Study

The objectives of the study are as follows :

- (i) To study the relationship between Ministries and public sector corporations in order to discover as to how far authority delegated to the corporations is being exercised by them;
- (ii) To find out the reasons for any gap between theory and practice of delegation of authority and its implications and
- (iii) To identify the areas where further delegation of authority is needed for the smooth conduct of business of a corporation.

Scope of the Study

Out of 50 public sector corporations existing in Bangladesh (List is given at Annexure-B), Bangladesh Steel and Engineering Corporation (BSEC) has been selected for the purpose of the study since it is one of the most important public sector corporations with enormous potentials for production and promotion of industries and technology. Given the virtual absence of solid minerals and industrial raw materials, the most prospective route for sustained industrial development and export earning for Bangladesh lies in the judicious use of her largest endowment, that is, her human resources and imported raw materials. In fact, steel and engineering industries constitute the backbone of modern industries.

In a monograph prepared by Industrial Investment promotion Unit, Trade and Industrial Policy (TIP) Reforms Programme of the Planning Commission, the following apparent consumption of products of the engineering industries is reported for 1981-84.

TABLE- 1

APPARENT CONSUMPTION OF PRODUCTS OF ENGINEERING INDUSTRIES IN BANGLADESH FOR 1981 - 84

Production	Medium & Large Scale Private	Public	Total	Small & Cottage production	Total production	Imports	Apparent consump- tion
1. Household Commercial supplies & equipment.	494.0	65.0	559.0	548.0	1107.0	208.9	1315.9
2. Industrial supplies	416.4	85.1	501.5	-	501.5	304.7	806.2
3. Machinery & equipment	792.2	383.6	1175.8	-	1175.8	6248.8	7424.6
4. Transportation equipment	406.8	340.7	747.5	118.0	865.5	2398.9	3264.4
5. Undifferentiated	-	-	-	518.0	518.0	-	518.0
Total	2109.4 (15.8%)	874.4 (6.6%)	2983.8 (22.4%)	1184.0 (8.9%)	4167.8 (31.3%)	9161.3 (68.7%)	13329.1 (100%)

Source : TIP: Review of the Engineering Industries in Bangladesh (April, 1985), pp.18-20.

Table-1 reveals the following findings :

1. Out of locally consumed engineering goods, about 69% is imported and only 31% is locally produced. Hence there is tremendous scope for import substitution saving foreign exchange in this sector.
2. Of locally produced engineering goods, public sector provides only a fifth (21.09%) and the remainder (79.91%) four-fifth come from private sector medium and large scale and small and cottage industries. This implies that the public sector has potentials to meet more of the market demand as well as give support to the private sector to produce more.

The case study has limited scope. It concentrates on one operational aspect of delegation of authority viz. foreign procurement. In fact, procurement of raw materials for enterprises under it such as pig iron, B.P. sheet, steel scrap, hot rolled steel strips, copper rod, aluminium rod etc. from abroad is one of the major functions of BSEC. In order to understand the procurement process, individual projects have to be studied in a great detail. In respect of foreign procurement, corporations can procure materials upto Tk.5 crores. Procurement worth above Tk.5 crores has to be made with the approval of the Ministry/Cabinet. An

attempt has been made to study one each of the following two types of cases relating to delegation of authority : (i) procurement made by the corporation, (ii) procurement made with the approval of the Ministry. Based on the analysis of these two cases, an attempt has been made to identify some issues, formulate recommendations and draw conclusion. Since the analysis is based on two cases only, the findings of the study are merely indicative guidelines for efficient management of public enterprises in Bangladesh. Further research work covering more sectors/ areas of public enterprises may be undertaken.

Methodology

Since procurement of raw materials, spare parts etc. is one of the most important functions of Bangladesh Steel and Engineering Corporation, the study focuses on procurement from abroad. Initially the study was designed to undertake an in-depth analysis of the following three types of cases relating to delegation of authority on foreign procurement undertaken by BSEC: (i) procurement made by BSEC, (ii) procurement made with the approval of the Ministry of Industries and (iii) procurement made with the approval of the Council Committee on Government Purchase. But as no case on the third type of procurement was available, the study has been confined to the first two types of cases. The first case has been selected at random, while the second one has been selected purposively. Both cases relate to FY 1986-87 because that was the latest year with respect to which information on procurement was available. The study was undertaken by consulting records, rules, regulations, reports etc. and interviewing selected personnel in BSEC, Ministry of Industries, Ministry of Commerce, Ministry of Finance, Planning Commission and External Resources Division.

Format of the Report

The case study has been presented in five chapters. Chapter I deals with the background, objectives, scope and methodology of the study. Conceptual issues of the study have been discussed in chapter II. Chapter III focuses on procurement function of BSEC. Two cases on procurement have been presented in chapter IV. Chapter V highlights some issues and includes recommendations and conclusion .

CHAPTER II

CONCEPTUAL ISSUES OF THE STUDY

It is important to clarify the conceptual issues of the study so that the readers can understand the contents of the study. The key concepts around which the study is built are : delegation, public enterprise, control, autonomy and accountability. These concepts are discussed below briefly.

Delegation

Originating from the Latin word 'delegates', delegation means sending one with a commission, hence to empower or trust another person to take action or to perform. Delegation is a form of decentralisation which transfers managerial responsibility for specifically defined functions to organisations outside the regular bureaucratic structure. According to Mooney, "Delegation means conferring of specified authority by a higher to a lower authority³. It means that delegation is the transference of authority by a superior to his agent or subordinate subject to his supervision and control. Terry, however, does not seem to agree with Mooney's interpretation of delegation. To him, "Delegation means conferring authority from one executive or organisational unit to another⁴. It implies that delegation is not essentially devolution of authority from a higher to a lower authority. It can as well be from a lower to higher authority and between equal authorities. A more rational definition of delegation has been given by Rondinelli and Nellis. They have defined delegation in the following way : "Delegation implies that a sovereign authority transfers to an agent specified functions and duties, which the agent has broad discretion to carry out. However, ultimate responsibility remains with the sovereign authority⁵".

3. J.D.Mooney, The Principles of Organisation, p.17

4. G.R.Terry, Principles of Management (1968), p.338

5. D.A.Rondinelli and J.R.Nellis, "Assessing Decentralization Policies in Developing Countries : The Case for Cautious Optimism". Development Policy Review (SAGE, London, Beverly Hills and New Delhi), Vol.4(1968), p.7

Types of Delegation

Delegation may be classified into the following types in terms of direction of delegation :

- (i) Downward delegation : Downward delegation takes place when the higher authority delegates to the lower authority as in the case of Sales Manager delegating to Salesman.
- (ii) Upward delegation : It is that type of delegation when the lower authority delegates to the higher as in the case of shareholders delegating to their Board of Directors.
- (iii) Sideward delegation : Sideward delegation is at equal levels as in the case of African Tribal Chiefs and their Central Tribal Authority⁶.

Described in terms of degree of authority delegated, delegation may be of four types :

- (i) Full or partial delegation : Delegation is full when complete powers are conferred on the agent, for example, when diplomatic representative is sent abroad with full powers to negotiate. It is partial when he is required to seek advice and guidance on crucial points from the delegating authority in his country.
- (ii) Conditional or unconditional delegation : Delegation is conditional when the action of a subordinate is subject to confirmation and revision by the superior ; it is unconditional when subordinate is free to act without reservations.
- (iii) Formal or informal delegation : Delegation is formal when embodied in written rules, by laws or orders ; it is informal when based on customs, conventions and understanding.
- (iv) Direct or intermediate delegation : Delegation is direct when no third person intervenes between the two parties to delegation ; it is intermediate when it is made through third person. Intermediate delegation is rarely found. Mooney gives two instances of such delegation : the election of the President of U.S.A. by the people through Electoral College and the election of the Pope by the congregation through Council of Cardinals⁷.

6. Terry, Principle of Management.

7. Mooney, Principles of Organization, pp.22-23

Public Enterprises

In order to provide a framework for the study, it is essential to define the term "public enterprise". There exists considerable confusion in the use of the term. United Nations has defined it as "publicly owned and/or controlled enterprises which are (i) incorporated public corporations i.e. by virtue of company acts or other public acts.... or (ii) large unincorporated units (government enterprises) that sell most of the goods they produce to the public"⁸. L.P. Jones defines public enterprise as a productive entity which is owned and/or controlled by public authorities and whose output is marketed⁹. Sobhan and Ahmed define a public enterprise as "a productive entity producing marketed goods and services with an explicit or extractable budget covering at least fifty per cent of current cost from current sales and under the decision making control of the government or its appointed bodies"¹⁰. Praxy Fernandes explained the concept of public enterprise in the following way¹¹. Public enterprise has two dimensions : (1) a public dimension and (2) an enterprise dimension.

- (1) The public dimension: There are four basic elements in this dimension : (i) public ownership, (ii) public purpose, (iii) public control and (iv) public accountability.
- (2) The enterprise dimension : This dimension has the following characteristics : (i) the organisation producing goods or services, (ii) marketing goods or services at a price, (iii) earning revenues covering costs, (iv) based on the entrepreneurial idea of investment and return and (v) maintaining a set of commercial accounts : (a) a balance sheet (assets and liabilities of the enterprise) and (b) a profit and loss account.

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8. United Nations, A System of National Accounts (1968), p.78
 9. Leroy P. Jones, Public Enterprise and Economic Development : The Korean Case (Seoul, 1975), p.23.
 10. Rehman Sobhan and Muzaffer Ahmed, Public Enterprises in an Intermediate Regime : A Study in the Political Economy of Bangladesh (Dhaka: BIDS, 1980), p.267.
 11. Praxy Fernandes, Managing Relations Between Government and Public Enterprises : A Handbook for Administrators and Managers (1986), pp.14-15.

These two dimensions of public enterprises are shown in Fig.1

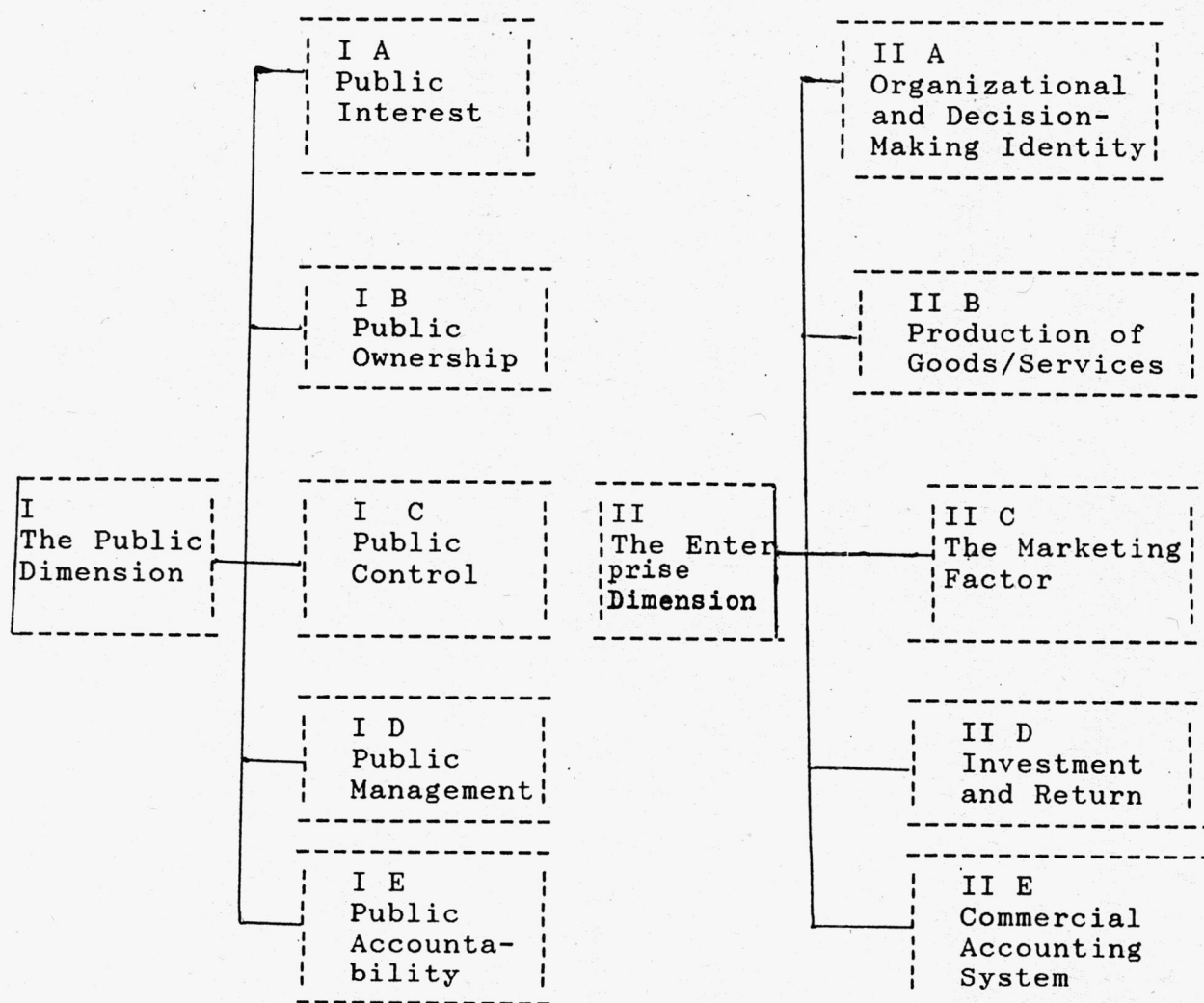


Fig.1 showing Public and Enterprise Dimensions of Public Enterprises.

Types of Public Enterprises

Broadly speaking, the following three principal types of public enterprises can be identified:¹²

- (a) Departmental Undertakings: These are basically extension of the government and are normally outcome of executive decisions. Their budgets are integrated with the government budget. Expenditures of these departmental undertakings are met out of government budget and their revenues go into the national exchequers. Financial and other management rules and procedures by and large conform to those obtaining in government departments and the employees are government servants and are subject to the same or similar service rules and salary structure. Departmental undertakings do not normally have a management board. Generally a chief executive is appointed by the Ministry and he is directly responsible to the Ministry. These enterprises are subject to all controls as is normal for a government department. Bangladesh Railways, Radio Bangladesh, Bangladesh Post Office, T&T Board etc. are some of the examples of departmental undertakings.
- (b) Statutory Public Corporations : These are established either through an Act of the Parliament or in its absence by an executive order of the President or an Ordinance. These corporations are separate legal entities, having an authorised capital and are empowered to define their own rules and regulations and prepare their own budgets with the approval of the government. These bodies enjoy a measure of autonomy in taking a number of day-to-day management decisions. The corporations normally have management boards appointed by the government. The personnel employed in the corporations are generally not government employees, although the chief executive is normally a government servant. They are empowered to acquire assets, enter into business contracts, borrow and lend funds, apportion the surplus from the enterprises and undertake ancillary activities with the concurrence of the government. There are 50 public corporations in Bangladesh.
- (c) Public Limited Companies : These are established under the Companies Act, 1913 (Act VII of 1913) which also governs private enterprises. They have separate legal status like private companies and are either fully or

12. This section draws heavily from M.H. Rashid: Public Enterprises in Bangladesh: A Survey", Bangladesh Journal of Public Administration. Vol. 1, No. 1, January, 1988, p.

partly owned by the government. A public limited company can be formed by a minimum of seven shareholders and there is no maximum limit on the number of its shareholders. They have their own Board of Directors which may comprise of members from the Ministries and corporations appointed by the government as well as private shareholders. The employees of the companies are not government employees and their budget is even less supervised and controlled by the government. There is more entrepreneurial freedom and the companies are designed to operate with the norms of private business. As an example of a public limited company, mention may be made of Eastern Cables Ltd. under BSEC which was incorporated into a Limited Company on 18.12.1986 with an authorised share capital of Tk.60.00 crore divided into 60 lakh ordinary shares of Tk.100.00 each. Paid up share capital of the Company has been fixed at Tk.20.00 crore divided into 20 lakh ordinary shares of Tk.100.00 each as per distribution shown below :

- (i) Group 'A' : 51%:Tk.10.20 crore divided into 10,20,000 ordinary shares of Tk.100.00 each to be sold by the government/BSEC for cash as well as non-cash consideration.
- (ii) Group-'B' : (a) 34% : Tk.6.80 crore divided into 6,80 ,000 ordinary shares of Tk.100.00 each to be issued for cash consideration and (b) 15%: Tk.3.00 crore divided into 3,00,000 ordinary shares of Tk.100.00 each to be issued to the workers and employees of Eastern Cables Ltd. for cash consideration¹³ .

Bangladesh manifests the existence of these three basic types of public enterprises e.g. departmental undertakings which operate directly under a Ministry or an agency as an extension of the government function and are creatures of executive decisions; wholly owned public corporations with seed capital provided by the government but who are autonomous in respect of their budget, asset ownership, modes of operations, procurement of fund within the broad rules and directives of the government; and public limited companies operating under the Companies Act¹⁴.

13. Bangladesh Steel and Engineering Corporation: Annual Report 1986-87, pp.26-27

14. Muzaffer Ahmad, State and Development: Essays on Public Enterprise (1987), p.23

Autonomy

Managers of public enterprises clamour for complete autonomy for managing the affairs of the enterprises. Autonomy is necessary to promote managerial efficiency and entrepreneurial dynamism. So the management of public enterprises should have adequate authority to take all operating decisions within the given objectives and policies defined by the government. If public enterprises are to be accountable, they have to be legally and functionally autonomous. The Industrial Policy of 1986 underscored the need for giving more autonomy to public enterprises with a view to improving their operational efficiency and economic viability. However, an increase in corporate autonomy requires less control and public accountability, and vice versa.

Control

Control is inverse to autonomy. Government intends to control public enterprises in order to ensure that desired social objectives are maximised. There are four hierarchical levels in the structure of control involving public enterprise. At the bottom is the enterprise level control, involving internal management matters. At the next tier is the corporation control involving supervision, coordination among units and delegated policy matters. At the third tier is the Ministerial control of bureaucratic nature, involving evaluation, coordination amongst Ministries and non-delegated policy matters. Finally, at the top level is the political control exercised by the Minister and the Cabinet involving major policy issues.

The instruments of control of public enterprises are to be found in (a) the legislation or other legal document establishing the public enterprise, (b) method of appointing and removing the chief executive and other officials, (c) budgetary approval, (d) audit, (e) annual performance and financial reports, (f) relationship with the concerned departments and Ministries, (g) relationship with the Parliament, (h) ownership, (i) the extent and nature of Ministerial control and (j) prevailing socio-political environment of the country and the sensitivity of the government to the same.

Accountability

Accountability may be defined as the responsibility to explain the conduct/performance. This responsibility can be viewed in terms of the fund made available to the enterprise and/or in terms of the task entrusted to it for performance. These enterprises operate on fund-accounting principles and thus accountability largely concerns the flow of revenues and expenditures, primarily expenditures.

The propriety of transactions loom large in the accountability concept¹⁵. Ramanadham defines public accountability as a framework of assurance (1) that the commercial performance of the corporation is efficient, both in the short run and in the long run, (2) that the Board's decision shall not contain implication of social policy but shall be based on the commercial criteria in the main, (3) that any parliamentarily approved or ministerially directed decisions are implemented in practice ; and that the Minister, as distinct from the Board, shall be accountable for his own influence on the Board's working." He also maintains that Parliament should bear the responsibility for ensuring public accountability¹⁶. Since public enterprises use public resources, they are required to be accountable for their performance. But public enterprises can only be held responsible if they have adequate authority to act and thereby be accountable.

In this study the term delegation of authority has been used to mean conferring more decision making power to public enterprises. However, the ultimate responsibility remains with the government. In this sense the definition given by Rondinelli and Nellis is more appropriate for the study. Of all the definitions of public enterprises presented in the study, that of Praxy Fernandes has been used for the purpose of the study. This is because Fernandes has adequately clarified the concept by explaining two dimensions of public enterprise viz., public and enterprise.

15. United Nations, Measures for Improving Performance of Public Enterprise in Developing Countries (New York, 1973), p.47.

16. V.V.Ramanadham, p.114

CHAPTER III

PROCUREMENT FUNCTION OF BSEC

Organisational Structure of BSEC

Before discussing the procurement function of BSEC, it is pertinent to throw some light on the organisational structure of the corporation. In terms of clause (I) of Article 10 of the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972 (P.O.27 of 1972), Bangladesh Steel Mills Corporation and Bangladesh Engineering and Ship Building Corporation came into being. The two corporations were merged on 1st July 1976 and renamed as Bangladesh Steel and Engineering Corporation under Bangladesh Industrial Enterprises (Nationalisation) (Second Amendment) Ordinance 1976. The corporation was established for the purpose of control, supervision and coordination of the nationalised enterprises placed under it.

Out of 64 enterprises placed under the management of BSEC, 24 were disinvested through sale, 10 were returned to their former Bangladeshi owners, 4 enterprises were handed over to other organisations, 5 were wound up being non-operational leaving with it 21 enterprises to operate. List of 21 enterprises along with their products is given at Annexure-C.

The management of the corporation is run by a Board of Directors consisting of a Chairman and 4 Directors viz., Director (Finance), Director (Planning and Development), Director (Production and Engineering) and Director (Commercial).

The functions of BSEC are conducted in 18 Divisions. A list of the Divisions along with the officers holding the charge of the Divisions is given in Table-2.

TABLE -2
DIVISIONS OF BSEC

Divisions	Officers in-charge
1. Secretariat 2. Personnel 3. Training Organisation and Method	Chairman
1. Accounts 2. Finance 3. Audit 4. Cost and Budget 5. MIS	Director(Finance)
1. Planning 2. Implementation 3. Construction	Director(Planning and Development)
1. Engineering-I 2. Engineering-II 3. Steel 4. Ship Building	Director(Production & Engineering)
1. Purchase 2. Marketing 3. Engineering-III	Director(Commercial)

Source: BSEC Head Office

The organogram of the Head Office of the corporation is shown in the following page.

To carry out the business of the corporation, Head Office has a sanctioned strength of 152 class I officers, 54 Class II officers and 421 staff against which there are 180 Class I officers, 34 Class II officers and 321 staff were found in position. There are 1598 sanctioned posts of officers, 3645 staff and 9024 workers in the enterprises against which 1752 officers, 3463 staff and 8437 workers were in position in the enterprises (on 30.6.89).

The performance of BSEC during the period from 1982-83 to 1986-87 depicts a mixed picture. In the first 3 years it suffered net loss, while during the remaining 2 years the corporation earned a net profit. Details may be seen at Annexure-D

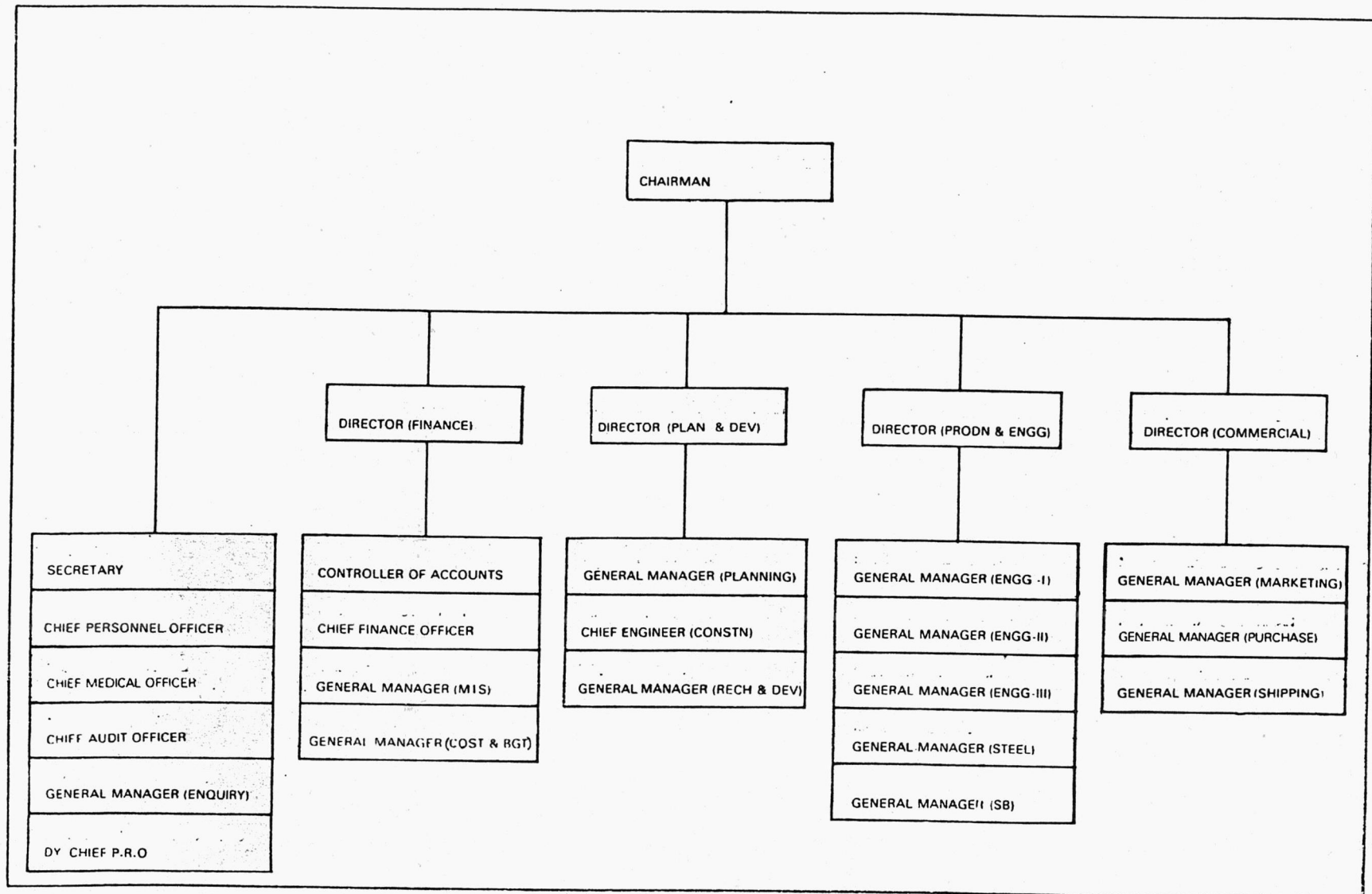


Fig.2 : Organogram of BSEC Head Office

Procurement Function

One of the major functions of BSEC is to undertake procurement of raw materials, spare parts etc. for its enterprises. The procurement function is undertaken by the Purchase Division of BSEC. The major functions of the Purchase Division are as follows :

- (i) To make out programme for procurement of raw materials and common items required by different enterprises under the corporation in consultation with Finance Division of BSEC and the enterprises ;
- (ii) To obtain necessary financial allocation from different sources ;
- (iii) To maintain marketing intelligence report, upto date information of prices and sources of supply of the materials from embassies abroad and from bulletins, periodicals etc.;
- (iv) To make timely procurement of raw materials, spare parts etc. required by the enterprises ;
- (v) To keep liaison with government, semi-government and autonomous organisations and different aid giving agencies regarding procurement ;
- (vi) To keep day to day stock reports of materials especially main importable raw materials of the enterprises, quantities in pipeline, shipped, discharged from the port etc.

The structure of Purchase Division is given below :

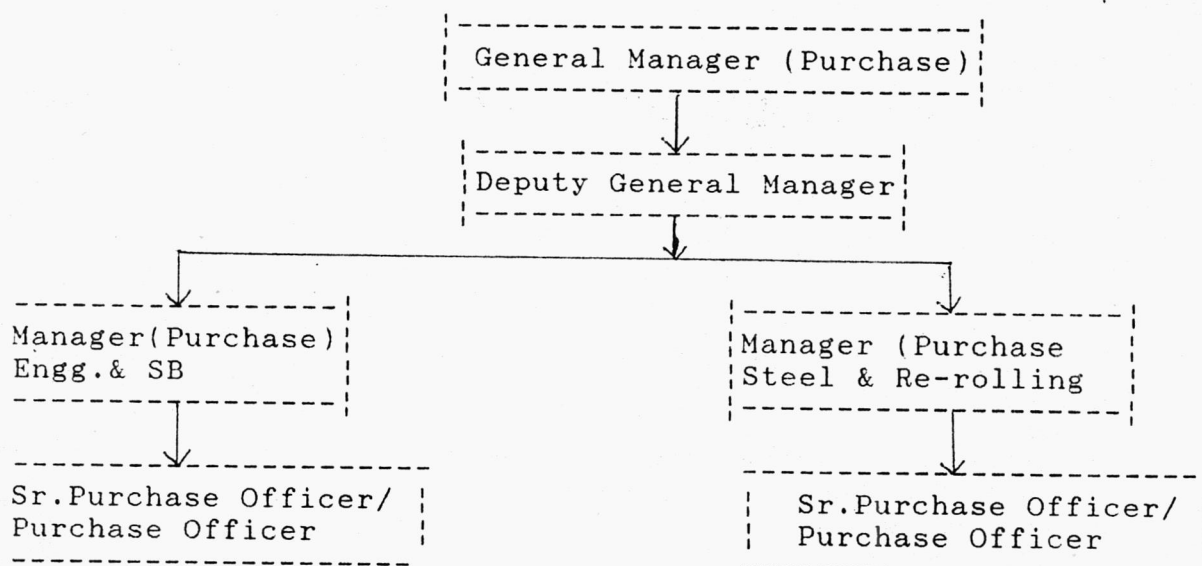


Fig.3: Structure of Purchase Division of BSEC.

Since Bangladesh has no basic natural raw materials such as ore and insufficient basic steel products that are necessary to support the growth of steel and engineering industries, the sector is almost entirely dependent on imported raw materials. Raw materials constitute the major element of production cost of engineering industry products ranging from about 50% to 80% of total cost¹⁷. Most of the inputs including basic raw materials, consumables, components and spares necessary for the local manufacture of machinery are imported. The raw materials include basic materials such as pig iron, B.P. sheet, hard coke, steel scrap, steel plates/sections, nonferrous (aluminium, brass gun metal) ingots, steel shafting, alloy steel etc. Major consumables include cutting tools, saws and blades, lubricants, refractory bricks and welding electrodes. Although some of these products are made locally, their basic inputs must be imported. Components and spares include motors, engines, bearing, couplings, gaskets, bolts and nuts, springs and miscellaneous standard auxiliaries.

The major items along with the countries of origin during 1982-86 are given below :

TABLE-3

MAJOR INPUTS WITH COUNTRIES OF ORIGIN

Items	Countries of Origin
Pig Iron	Pakistan, Bulgaria and Chekoslavia.
B.P. Sheet	Turkey, Netherlands and Luxemburg.
Steel Scrap	U.S.A., West Germany and other Western Countries.
Hot Rolled Steel Scrap	European Countries.
Copper Rod	Canada, Sweden and Poland.
Aluminium Rod	Canada, Norway, Sweden and South Korea.

Source : BSEC Head Office

17. TIP: Review of the Engineering Industries in Bangladesh (April, 1985), p. 29.

Sources of Procurement

Procurement may be undertaken in the form of cash and Wage Earners' Scheme (WES) and tied credit such as Credit, Barter/STA and commodity Aid/Grant. Each of these sources needs some elaboration.

i) Cash : On the basis of the requirements submitted by the enterprises, Finance Division of the corporation prepares a consolidated budget of cash foreign exchange in January/February each year and submits it to the Ministry of Commerce for consideration through Ministry of Industries. Ministry of Industries scrutinises the proposal submitted by BSEC and after scrutiny sends the same to Ministry of Commerce for approval.

ii) WES : Since adequate cash foreign exchange is not available, the corporation is becoming more and more dependent on Wage Earners' Scheme for import of raw materials. The corporation purchases US dollars sent by Bangladesh nationals working abroad at government prescribed rate from Bangladesh Bank or Foreign Exchange Branch of Sonali Bank, Janata Bank or Agrani Bank.

iii) Credit : Generally credit is allocated to BSEC by the government through External Resources Division and the credit is utilised for import of raw materials. As soon as raw materials reach the port, credit amount has to be deposited into the prescribed account of Bangladesh Bank. In many cases raw materials have to be imported from the credit giving country. Among the sources of credit mention may be made of IDA and Yen credits.

iv) Barter/STA : Under barter trade, long term trade agreement is signed between the government of Bangladesh and other countries for expanding and diversifying the exchange of commodities listed in the agreement. At the beginning of the financial year the Ministry of Commerce conveys the allocation of funds for Bangladesh exports to and imports from the foreign countries to be effected through Barter Protocol. Trade with Socialist Countries such as USSR, Poland, Bulgaria and Romania is generally undertaken through barter.

In Special Trade Agreement (STA) the Ministry of Commerce accords approval of quantity to be imported from abroad. Then agreement is signed between the Trading Corporation of Bangladesh (TCB) and private suppliers of foreign countries for import of materials.

v) Commodity Aid/Grant : Grant is always in the form of commodity rather than cash. Commodity grants are generally made available by Canada, Sweden, Norway, Japan and the U.K.

Table-4 presents the various sources through which procurement for BSEC was made between 1982-83 and 1986-87.

TABLE -4
SOURCES OF PROCUREMENT

(in crore taka)

Year	Cash	WES	Credit	Barter/ STA	Commodity Aid/Grant	Total
1982-83	2.00	9.00	31.18	14.58	3.56	60.32
1983-84	12.11	30.00	19.36	2.81	11.33	75.61
1984-85	10.30	48.35	30.30	14.33	20.83	124.11
1985-86	7.00	82.85	62.14	10.43	30.80	193.22
1986-87	-	11.84	47.83	15.35	28.36	103.38
Total	31.41 (5.64)	182.04 (32.70)	190.81 (34.28)	57.50 (10.33)	94.88 (17.05)	556.64 (100.00)

Source: BSEC (Purchase Division)

Figures in the parenthesis indicate percentages.

It is evident from Table-4 that during the period from 1982-83 to 1986-87 the highest procurement of BSEC was made through credit (34.28%) followed by WES (32.70%). Purchase through cash foreign exchange ranked the lowest (5.64%).

It is observed that external resources are mostly available in the form of grants, commodity aid, credit, barter and STA. Although procurement through cash foreign exchange enables BSEC to secure price advantage, it is not possible to do so because of shortage of cash. Under these financing arrangements, the buyer is constrained to procure from a particular market or a group of markets and can not take advantage of the competitive and cheapest source. Procurement under barter is all the more unfavourable. There is neither any opportunity to obtain competitive price nor is there any mechanism to persuade the supplier to reduce prices to international level with assured timely delivery. As such every year BSEC is constrained to make a substantial amount of uneconomic purchases. These purchases have far-reaching effect on the cost of finished products and their marketing¹⁸.

Procurement Procedure

Foreign procurement of materials made by the BSEC is based on the Annual Import Policy published by the Ministry of Commerce and is related to two shipping periods : July to December and January to June. Fifty percent of the foreign exchange quota is available in the first shipping period and the remaining 50% is available in the second shipping period.

18. Planning Commission: The Third Five Year Plan 1985-90
p.223.

Procurement procedure of the corporation is laid down in the Manual of Purchase Procedure (Part-I & II) prepared by the erstwhile East Pakistan Industrial Development Corporation in 1967 which have been modified and updated. The following procedure is followed in making purchases of materials from abroad.

Stores purchase requisition (SPR) is the basis of all procurements. An SPR indicates budgetary sanction and contains all basic and important information regarding materials to be procured.

On receipt of an SPR, Purchase Division of BSEC initiates procurement action in the following manner: If the purchase falls in the category of non-proprietary types and their estimated value is above Tk. one lakh, the item is advertised through at least two widely circulated dailies (one Bengali and one English). If the goods are of proprietary nature, quotations are invited directly from manufacturers or their authorised agents irrespective of value.

Tender documents form the basis of evaluation and selection of any offer. Tender document is prepared in such a way that it contains full details of materials and also reflects important terms and conditions of purchase including criteria/principles of evaluation/assessment of a tender.

Tender documents are priced. Tenders must be accompanied by earnest money equivalent to one percent of the total quoted value subject to a maximum of Tk. five lakh and minimum of Tk. one thousand (as prescribed in the tender documents.)

Tenders are received in tender box. Comparative statement of offers received is prepared in the prescribed form within three days of opening of tenders. All purchases except cash purchase have to be processed through a Tender Committee. For purchases above taka fifty lakh Tender Committee consists of the following:

- | | | | |
|------|---|---|------------------|
| i) | Secretary, BSEC | : | Chairman |
| ii) | Chief Finance Officer | : | Member |
| iii) | Controller of Accounts | : | Member |
| iv) | Head of Concerned Division | : | Member |
| v) | Head of concerned enterprise/
project (as the case may be) | : | Member |
| vi) | General Manager (Purchase) | : | Member-Secretary |

The recommendation of the Tender Committee is placed before the competent authority for approval. After the purchase is approved by the competent authority, letter of acceptance in prescribed form is issued to the successful bidder informing acceptance of offer. In that letter the successful bidder is instructed to submit performance guarantee covering 5 percent/10 percent, as the case may be, of the order/contract value within a specified period. Formal purchase order/contract in the prescribed form is placed with successful bidder within three days of receipt of the performance guarantee.

Finance Division of the Corporation head office is entrusted with the responsibility of arranging foreign exchange allocation from the government for financing all imports whether made by the corporation or by an enterprise/project.

As soon as the purchase order is placed with the supplier, BSEC processes application for import licence to be issued by the Controller of Imports and Exports (CI&E). Letter of Credit (LC) is opened in the nominated/designated commercial bank in favour of the supplier. In order to ensure quality, quantity, packing, marking, booking etc. as stipulated in the purchase order, inspection of the importable goods is arranged prior to shipment through a reputed inspection agency at buyer's cost. All foreign purchases are covered under a marine insurance open policy. Immediately after the shipment of goods, the supplier is required to send the following information under registered cover or by telex or by cable to the insurer:

- i) Purchase order/contract number with date
- ii) Description of goods
- iii) Total number of packages/cases
- iv) Total C&F value of the consignment
- v) Name of the ship
- vi) Bill of Lading number with date
- vii) Port of loading and port of discharge

Copy of such advice to the insurer is endorsed to Accounts/Finance Division as well as to Purchase Division by the supplier/contractor for proper follow-up with the insurer for covering insurance of the consignment in time. On receipt of shipping advice by telex/cable/telephone from the supplier/contractor, the concerned purchase official requests the Accounts/Finance Division in writing to keep in touch with the LC opening bank about the arrival of the original shipping documents. The original set of shipping documents are withdrawn from the bank by the Corporation on payment of the specified value and then forwarded to the Shipping Office at Chittagong and Khulna for clearance of goods through the customs.

In case of procurement against Credit/Grant/Barter/STA etc., purchase is made by the Purchase Division of BSEC in accordance with the terms and conditions of the respective protocols.

Delegation of Financial Power for Purchase

Nature of financial powers delegated to public enterprises for purchase is presented in Table-5.

TABLE -5
FINANCIAL POWER FOR PURCHASE IN PUBLIC SECTOR

Name of Agencies	Nature of Financial Powers
A.* Enterprises	Upto Tk.2 crores.
B. <u>Corporations:</u> Board of Directors/ Heads of Executing Agency.	(a) For large sector corporations/ Autonomous Bodies viz.BADC/ BWDB/PDB/BJMC/BTMC/BCIC/BSEC/ BSFIC/BOGMC/BPC-upto Tk.5(five) crore. (b) For other corporations/Auto- nomous Bodies and Heads of Executing Agencies-upto Tk.2.5 (two and a half) crore
C. Ministers	Upto Tk.15(fifteen) crore
D. Council Committee on Government Purchase	Above Tk.15(fifteen) crore

Source:*BSEC:Administrative and Financial Authority,(1988
p.25.

: Finance Division's Memo No.MF/FD/ABW/S-I/124/85 dated
6.7.85

In this study case No.1 relates to category C while category
B is represented by case No.2

CHAPTER IV

TWO CASES ON FOREIGN PROCUREMENT

The present study focuses on the delegation of authority with respect to foreign procurement of materials by BSEC. In this chapter an attempt has been made to highlight two types of cases relating to delegation of authority : (i) procurement made by BSEC with the approval of Ministry of Industries and (ii) procurement made by BSEC.

The cases unfold the story of decision making process in respect of import of materials during FY 1986-87. Both the cases relate to Chittagong Steel Mills Ltd.(CSM). The story of each case is followed by a chronology of events.

Case No.1

Case No.1 deals with import of (i) 10,000 MT Heavy Melting Steel Scrap No. 1 and (ii) 10,000 MT Bundle Steel Scrap No.2 for CSM during 1986-87. As the purchase was beyond the financial limit of BSEC (i.e. Tk.5 crores),it had to be sent to the Ministry of Industries for approval.

Since inception,almost the entire requirement of steel scrap for the CSM has been met by importing against international tender. During the initial years,out of the total requirement of about 70,000 MT,only 5-6 thousand MT of steel scrap could be procured locally per year and the balance had to be imported.From 1981-82 ship breaking industries started growing up in the country creating an alternative source of scrap for the CSM. Government also directed Bangladesh Railway to supply all its scrap to the CSM. It was felt that these sources could sufficiently meet the needs of steel scrap for the CSM. Therefore,the government banned import of scrap in 1982. Since then the CSM had been using locally procured steel scrap. From 1984-85 situation began to change; many re-rolling mills were set up and started using steel scraps as raw materials. With increased demand for scrap,its price also went up and the ship breakers found it more profitable to supply the scraps to the re-rolling mills. On the other hand,supply of scraps from Bangladesh Railway continued to decline.

In order to tackle the situation,the CSM made a detailed proposal to the BSEC on 11.9.85 for import of 10,000 metric tons of Heavy Melting Steel Scrap No. 1 and 10,000 metric tons of Bundle Steel Scrap No.2 during FY 1986-87. The BSEC in turn sent the proposal to the Ministry of Industries (MOI) on 16.10.85. On 3.11.85 the MOI asked the BSEC to furnish the following information : (i) price of scrap procured from local sources and (ii) estimated price of imported scrap,if import is allowed.

After getting the information from the CSM, BSEC supplied the following detailed information regarding procurement price to the MOI on 1.4.86.

Category	(C&F Price quoted per MT)	
	Cash (Tk.)	WES (Tk.)
Heavy Melting Scrap-1	5,406.40	6,091.41
Bundle Steel Scrap-2	4,787.36	5,393.32

On 27.8.86 a meeting was held in the MOI with the representatives of the BSEC and Ship Breakers Association (SBA). In the meeting it was decided that the SBA be allowed to take part in the international tender for supply of scraps and they would enjoy 15% price benefit as usual.

After a host of correspondence among the parties, the MOI approved in principle the import proposal of 20,000 MT steel scrap nearly after a year. On 13.10.86 the MOI advised the BSEC for obtaining ROR from the Ministry of Industries.

International tender notice appeared in the local dailies on 23.10.86. In response to the tender notice, 14 bids were received for Heavy Melting Steel Scrap No.1 and 11 bids for Bundle Steel Scrap No.2. The SBA did not participate in the tender, but made a representation that they were willing to supply scrap at the rate of Tk.5500 per MT against import price @ Tk.6000 per MT. On 21.2.87 the BSEC wrote to the MOI denying the representation and stating that the SBA did not participate in the tender. It also informed that the lowest bidder offered to supply @ \$103 per MT (i.e. Tk.3130.44 per MT).

Three bidders namely Trade Venture, Meghna Enterprises and Jamal and Brothers claimed themselves to be the lowest bidders. It is interesting to note that all of them managed to get recommendations in their favour from Deputy Prime Minister or State Minister for Industries.

First and second meetings of the Tender Committee of the BSEC were held on 14.12.86 and 19.1.87 respectively to consider the tenders. The recommendations of the Tender Committee were placed before the Board of Directors. Board in its meeting held on 31.1.87 accepted the offer of M/S. Trade Venture, being the lowest bidder, for supply of 10,000 MT (+- 10%) steel scrap (HMS scrap no.1) @ US\$112.22 per MT and also the offer made by Meghna Enterprise, being the lowest bidder, for supply of 10,000 MT (+- 10%) HMS scrap no.2 @ US\$95.90 per MT. Since the estimated values of steel scrap no.1 and 2 (+- 10%) were US\$1,234,420 (Tk.3,81,34,444) and US\$1,054,900 (Tk.3,25,88,603) respectively totalling US\$2,289,320 (Tk.7,07,23,047), Board recommended for sending the proposal to the Ministry for approval. On 5.2.87 BSEC sent the proposal alongwith the following papers to the Ministry :
(i) Minutes of the meetings of the Tender Committee, (ii) Resolution

of the meeting of the Board of Directors, (iii) Filled in proforma prescribed by the Ministry and (iv) Tender documents.

It may be mentioned in this connection that the CSM made correspondence i.e. reminder by telex to BSEC on several occasions (on 27.4.86, 2.11.86, 4.2.87, 19.2.87) stating the alarming situation of the stock of steel scrap.

On 8.2.87 BSEC requested Trade Venture and Meghna Enterprise for extension of their Bank Guarantee of earnest money upto 15.3.87. They were also requested to extend the validity of their offer upto 15.3.87. Trade Venture and Meghna Enterprise extended their offers upto 28.2.87 and 15.3.87 respectively. Meghna Enterprise extended the Bank Guarantee of earnest money upto 15.3.87.

Finally, the tenders received approval from the MOI on 12.3.87. Even after the approval of the tenders by the Ministry, it requested the BSEC for submission of necessary papers/documents for issuance of ROR on 15.3.87. But BSEC already had requested the Ministry for issuance of ROR on 1.11.86 and reminder issued on 23.11.86. Again on 20.3.87 the BSEC explained the position to the Ministry that the procurement proposal and the tenders had already been approved. Order was issued in favour of M/S. Metalink Marine Corporation, U.S.A. (Principal of M/S. Meghna Enterprise) for supply of steel scrap by May, 1987. Trade Venture the lowest bidder, did not submit performance guarantee and as such they were not issued the supply order. Instead the BSEC initiated the process for procurement under STA/Barter.

Chronology of Events

<u>Date</u>	<u>Events</u>
18.7.85	Chittagong Steel Mills Ltd. (CSM) sends a proposal to Bangladesh Steel and Engineering Corporation (BSEC) explaining the dearth of stock of steel scrap "Last Import of 11,000 MT scrap made in March, 1982. Import was banned after that period."
11.9.85	CSM sends a detailed proposal to BSEC furnishing the following recommendations made in the meeting on 8.9.85 : (i) To fix up flat rate of Tk.2050/-per MT for Heavy Melting Scrap No.1 (70% HMS 1 and 30% HMS 2). (ii) To take up the issue with concerned Ministry through Ministry of Industries for getting clearance of import of scrap by CSM a quantum of 15,000 to 20,000 MT for buffer stock.

10.10.85 BSEC sends a telex to CSM for furnishing the detailed present procurement position of local scrap for both private and public agencies including Railway.

14.10.85 CSM furnishes the required information :
Procurement from different sources :-

Sources	1982-83	1983-84	1984-85
(a) Bangladesh Railway	313 MT	15085 MT	5470 MT
(b) Govt./Nationalised Industries	795 MT	745 MT	911 MT
(c) Private Tenders	7542 MT	22115 MT	13712 MT
Total	8650 MT	37945 MT	20093 MT

Bangladesh Railway and nationalized industries could not supply scraps according to the demand of CSM. Total demand during 1985-86 was 65,000 MT
+ 10,000 MT (buffer stock).

16.10.85 BSEC sends the proposal to the MOI for import of 20,000 MT Heavy Melting Steel Scrap for CSM.

3.11.85 Ministry of Industries writes to BSEC for furnishing the following information :

- (i) Price of scrap procured from local sources ;
- (ii) Estimated price of imported scrap, if import is allowed.

11.11.85 BSEC by telex requests CSM for furnishing above mentioned information as requested by MOI.

1.12.85 CSM responds and furnishes the prices

13.12.85 MOI issues reminders.

&

14.12.85

16.1.86 CSM submits the detailed price list for import of scrap.

1.4.86 BSEC supplies detailed information to MOI regarding procurement price (per MT) :

Category	(C&F price quoted per MT)	
	Cash	WES
HMS-1	Tk.5,406.40	Tk.6,091.41
Bundle Steel	Tk.4,787.36	Tk.5,393.32
Scrap-2		

27.4.86 CSM once again requests BSEC to request MOI for arranging import of 20,000 MT HMS-1

13.5.86 BSEC requests MOI seeking permission for import of scrap describing yearly requirement:

Yearly requirement	71,000 MT
Mill return	- 14,200 MT

	56,800 MT

22.5.86 BSEC once again issues reminder to MOI for clearance

28.7.86 BSEC forwards a letter enclosing the views of CSM in respect of permission for import of steel scraps. Views of CSM as follows :

"We request to protect CSM from the far reaching collusive activities of the members of Ship Breakers' Association(SBA) and allow CSM to import 25,000 MT steel scrap."

4.8.86 MOI issues notice to CSM for holding meeting with SBA on the supply of steel scrap to CSM.

27.8.86 MOI asks BSEC to resolve the issue of supply of steel scrap with SBA.

27.8.86 A meeting is held in MOI with representatives of BSEC and SBA. The meeting decides to allow SBA to take part in the international tender for supplying steel scraps and they would enjoy 15% price benefit as usual.

8.9.86 BSEC informs MOI that SBA may take part in the international tender for supply of scraps. They will enjoy 15% price benefit as usual.

21.9.86 MOI asks BSEC for indicating the source of foreign currency, if they are allowed to import scraps.

27.9.86 BSEC responds informing that the source of foreign currency would be IDA credit or OECF loan depending on the source of supply. If import of scrap is not allowed CSM will have no option but to close down the industry.

11.10.86 MOI informs BSEC approving the proposal in principle to import 20,000 MT steel scrap ; also informs that steps for taking special permission from Ministry of Commerce and channeling of necessary fund through ERD are being taken.

13.10.86 MOI writes to BSEC asking for a proposal to be submitted to ERD for arranging necessary fund, also advises BSEC for obtaining ROR from MOI. All possible efforts for local procurement should be made.

21.10.86 From BSEC to SBA requesting them for participation in the international tender prior to which they need clearance from EPB and Ministry of Commerce.

23.10.86 International Tender notice appeared in the local dailies.

1.11.86 BSEC writes to MOI for recommendation for an allocation of US\$3.3 million for import of scraps.

2.11.86 Telex message from CSM to BSEC informing about the scarcity (1400 tons) of scraps.

3.11.86 MOI requests ERD for arrangement of allocation of US\$3.3 million under IDA or OECF loan.

18.11.86 MOI writes to BSEC advising them for getting allocation under OECF-IDA loan for CSM. Vetted by Ministry of Commerce and then approach ERD.

24.11.86 MOI convenes a meeting to discuss the issue of import of steel scraps.

25.11.86 CSM writes to BSEC for allocation of FE amounting to Tk.14 crores.

26.11.86 BSEC to Ministry of Commerce requesting for allocation of US\$3.3 million for import of Heavy Melting Steel Scrap.

6.12.86 Fixation of date for opening of tender by BSEC (10.12.86 is fixed date).

7.12.86 Telex message from BSEC to CSM for attending Tender Committee meeting to be held on 14.12.86.

10.12.86 Tender opened in presence of representatives of bidders.

14.12.86 Tender Committee meeting held.

15.12.86 MOI to BSEC asking clarification as to why BSEC has planned to import 20,000 MT Heavy Melting Steel Scrap for CSM is willing to supply at the rate of Tk.5500 per MT.

18.12.86 CSM to BSEC informing of the stock position of scraps : 650 MT in hand (alarming); order booked for 15,000 MT (in the pipe line).

- 21.12.86 BSEC writes to MOI denying the allegation and stating that SBA did not participate in the tender. Also informs that the lowest bidder offered to supply @US\$103 per MT (i.e. Tk. 3130.44 per MT).
- 23.12.86 From BSEC to World Bank. The arrangement was made for purchasing the scraps with IDA credit. BSEC asks for the opinion of World Bank regarding the lowest tenderer since they submitted tender documents without bid bond which is a requisite but the terms are favourable for BSEC. (in a circular of the Ministry of Industries Circular No. MI/CB-1/P(29)/83-315(4) dated 1.2.83, it has been circulated that all incomplete offers or non-responsive tenders should be rejected outright).
- 27.12.86 One of the bidders (Trade Venture) made an allegation about the bid procedure. They claim that their bid @ US \$112.47 per MT was the only lowest responsive and complete bid (recommended by State Minister for Industries).
- 3.1.87 Another bidder (Jamal and Brothers) claimed that they are the lowest bidder @ Tk. 3795/- (foreign currency not quoted) (recommended by Deputy Prime Minister).
- 4.1.87 World Bank replies that the 2nd lowest bidder should get the contract, which fulfils all the tender conditions. They opined that bid bonds are regarded as mandatory conditions and non-submission of bid bonds makes the bid invalid.
- 10.1.87 BSEC sends notes to the Deputy Prime Minister and the State Minister for Industries (separately explaining the situation of tender processing (in response to the recommendations of the Ministers).
- 11.1.87 BSEC to Trade Venture (one of the bidders) requesting them to bring down their quoted price from US \$112.47 per MT to \$103 per MT. Validity of the offer to be extended.
- 14.1.87 Trade Venture replies that price can not be lowered but validity of offer extended upto 24.1.87.
- 14.1.87 Meghna Enterprise, another bidder, gets recommendation from DPM claiming themselves lowest bidder.
- 15.1.87 Telex from BSEC to CSM requesting to attend 2nd Tender Committee meeting to be held on 19.1.87.

15.1.87 Bulgarian Embassy informs BSEC that they are willing to supply scraps @ \$ 134.50 and \$ 114.50 respectively.

19.1.87 2nd Tender Committee meeting held.

24.1.87 Meghna Enterprise extended validity of their offer upto 15.2.87.

24.1.87 Trade Venture to BSEC extending validity upto 10.2.87

31.1.87 CSM to BSEC(telex) informing of the stock position of scraps which is alarming requesting for emergency import, otherwise to cut down production.

2.2.87 Trade Venture to BSEC extending validity upto 15.2.87.

4.2.87 Brief prepared by BSEC. The Board of Directors of BSEC in its meeting held on 31.1.87 discussed the matter of import of 20,000 MT HMS scraps. The Board decided that the offer of M/S. Trade Venture for supply of 10,000 MT(+/-10%) scrap @ \$ 112.22 (HMS scrap No.1) be accepted. The Board also decided that the offer made by Meghna Enterprise for supply of 10,000 MT(+/-10%) (HMS No.2) @ \$95.90 per MT be accepted. Board recommended for sending the proposal to MOI.

4.2.87 Telex from CSM to BSEC informing the critical situation of scraps stock.

5.2.87 BSEC sends the proposal alongwith necessary papers to Ministry of Industries for approval.

8.2.87 From BSEC to Trade Venture and Meghna Enterprise requesting for extension of their Bank guarantee of earnest money upto 15.3.87

10.2.87 Meghna Enterprise extends the bank guarantee of earnest money upto 15.3.87.

14.2.87 BSEC to Meghna Enterprise informing finalization of acceptance of offers in process i.e. in the MOI . They are requested to extend the validity of offer upto 15.3.87. Same to Trade Venture.

14.2.87 From BSEC to MOI for accelerating the matter of procurement of 10,000 MT of HMS No.1 & 10,000 MT HMS No.1 & 10,000 MT of HMS No.2 .

14.2.87 MOI to BSEC for submission of necessary papers to MOI for issuing ROR and getting clearance from Ministry of Commerce; requests BSEC to request the bidders in turn to extend the offer upto 15.3.87.

- 19.2.87 Meghna Enterprise and Trade Venture extend the offers upto 15.3.87 and 28.2.87 respectively.
- 19.2.87 CSM to BSEC (telex) informing the alarming state of stock. (But it is seen that BSEC already requested MOI for issuing ROR on 1.11.86. On 23.11.86 BSEC further requested MOI for issuance of ROR).
- 23.2.87 BSEC responds the letter of 14.2.87 explaining the facts.
- 1.3.87 From BSEC to MOI requesting to expedite the process of procurement.
- 8.3.87 Reminder to MOI by BSEC.
- 12.3.87 From BSEC to M/S.Trade Venture and Meghna Enterprise for extension of validity of offer and bank guarantee of earnest money upto 30.3.87.
- 12.3.87 MOI writes to BSEC conveying the approval of the government for procurement of 10,000 MT of HMS No.1 from M/S.Trade Venture @ US \$112.22 per MT & 10,000 MT of HMS No.2 from Meghna Enterprise @ US \$95.90 per MT.
- 15.3.87 From BSEC to Trade Venture informing of the acceptance of offer for supply of 10,000 MT(+/-10%) HMS scrap No.1 by May 1987 @ \$112.22. Same to Meghna @ \$ 95.90 per MT.
- 15.3.87 From MOI to BSEC requesting for submission of necessary papers/documents for issuance of ROR.
- 20.3.87 From BSEC to MOI explaining the position that the procurement proposal has already been approved.
- 28.3.87 Supply order to M/S.Metalink Marine Corporation, USA (Principal of M/S.Meghna Enterprise) by May 1987. Trade Venture did not submit performance guarantee and as such they were not issued the supply order. Instead BSEC initiated the process for procurement under STA/Barter.

Case No.2

This case highlights import of 3,500 MT (+/-10%) Cold Rolled (CR) Steel Stripes under Barter/STA for Chittagong Steel Mills Ltd.(CSM) during FY 1986-87. On 11.4.87 BSEC invited tenders from 11 agencies for supply of the above quantity of CR Steel Strip for CSM since these 11 agencies were registered agencies to supply the specific item under Barter/STA. In response to the tender invitation, 3 tenders were received.

	Name of bidder	C&F price quoted per MT
1.	M/S.Bangladesh Export Import Co.Ltd. (BEXIMCO)	US\$ 429.50
2.	M/S.Transcom Ltd.	US\$ 431.85
3.	M/S. Inter-Trading Ltd.	US\$ 435.65

Tender Committee in its meeting held on 20.4.87 decided that M/S.BEXIMCO Ltd., the lowest bidder, would furnish the name of the country of origin of supply and the last date of shipment. Keeping in view the increasing trend of price of CR steel strips and also taking into account the stock position of CSM, it was also decided that additional 3,700 MT of the same item might be procured from M/S. Transcom Ltd., the second lowest bidder. The Tender Committee decided that M/S.Transcom Ltd., the second lowest bidder, would inform whether they were willing to supply at the lowest price quoted by M/S.BEXIMCO Ltd. along with the country of origin and last date of shipment.

Tender Committee again met on 21.4.87 and the Committee was informed that M/S.BEXIMCO Ltd. mentioned that Belgium would be the country of origin of their supply. They also indicated that shipment would be possible by August, 1987. M/S. Transcom Ltd. informed that they could not contact their principal due to holidays of Easter and they requested for extension of their offer upto 22.4.87. The meeting of the Tender Committee accepted the tender of the lowest bidder M/S.BEXIMCO Ltd. The meeting recommended for procurement of 3,700 MT CR Steel Strips from BEXIMCO Ltd. and the last date of acceptance of offer would be 27.4.87. In the same meeting the request made by M/S.Transcom Ltd. for extension of validity of offer upto 22.4.87 was agreed upon.

On 22.4.87 the recommendations of the Tender Committee were placed before the meeting of the Board of Directors of BSEC and the Board accepted the recommendations. On the same day M/S.Transcom Ltd. furnished reply to BSEC mentioning US\$ 429.50 per MT as price, Belgium as its country of origin for supply and August, 1987 as last date of shipment. But in supersession of their previous letter M/S.Transcom Ltd. on 26.4.87 informed that the country of origin for supply would be South Korea in lieu of Belgium.

On 28.4.87 the recommendation of the Tender Committee for accepting the offer of M/S.Transcom Ltd. was placed before the members of the Board of Directors of BSEC through circulation. Instead of considering the case the higher authority of BSEC proposed for holding an emergency meeting which was accepted. Instead of holding an emergency meeting of the Board, on 6.5.87 the recommendations were again placed before the members of the Board of Directors through circulation and it was approved.

On 20.5.87 a meeting was held in BSEC to consider certain amendment of terms and conditions of the tender submitted by M/S.BEXIMCO Ltd. The amendments proposed by M/S.BEXIMCO Ltd.were (a) acceptance of charter party bill with the condition of liner delivery and (b) acceptance of the thickness of 0.70 mm instead of 2.50 mm of the inner tube sheet of coil. The proposed amendment was approved and a proposal of M/S.BEXIMCO Ltd. for supply of additional quantity of 300 MT CR Steel Strips was approved as well.

Another meeting was held in BSEC on 29.6.87 to consider the request of M/S.Transcom Ltd. for extension of last date of shipment upto October,1987 and it was approved. On 30.8.87 M/S.Transcom Ltd requested for some modification in their specification of CR Steel Strips which was approved on 2.9.87.

In a telex message dated 29.9.87 M/S.Transcom Ltd. informed that the shipment of 2999.08 MT out of 3700 MT CR steel strips had already been done. Their request for extension of the period of shipment of the rest 700 MT CR steel strip upto 31.10.87 was accepted.

Chronology of Events

<u>Date</u>	<u>Events</u>								
11.4.87	BSEC invites tenders from 11 registered agencies for import of 3,500 MT(+/-10%)Cold Rolled Steel Strips for CSM.								
19.4.87	Tenders are opened and three offers from the following firms are received against the said invitation: (1) M/S.Bangladesh Export and Import Company Ltd. (BEXIMCO) (2) M/S. Transcom Ltd. and (3) M/S. Inter Trading Ltd.								
20.4.87	Meeting of Tender Committee is held for considering the offers received. The offers received are : ----- <table> <tr> <th>Name of bidder</th><th>C&F price quoted per MT</th></tr> <tr> <td>(1) M/S.BEXIMCO LTD.</td><td>US\$ 429.50</td></tr> <tr> <td>(2) M/S.Transcom Ltd.</td><td>US\$ 431.85</td></tr> <tr> <td>(3) M/S.Inter-Trading Ltd.</td><td>US\$ 435.65</td></tr> </table> -----	Name of bidder	C&F price quoted per MT	(1) M/S.BEXIMCO LTD.	US\$ 429.50	(2) M/S.Transcom Ltd.	US\$ 431.85	(3) M/S.Inter-Trading Ltd.	US\$ 435.65
Name of bidder	C&F price quoted per MT								
(1) M/S.BEXIMCO LTD.	US\$ 429.50								
(2) M/S.Transcom Ltd.	US\$ 431.85								
(3) M/S.Inter-Trading Ltd.	US\$ 435.65								

Tender Committee takes the following decision:

- (a) M/S.BEXIMCO Ltd.,the lowest bidder,would furnish the name of the country of origin by 21.4.87 from which import would be made mentioning the last date of shipment ; and
- (b) Additional 3,700 MT of the same item might be procured from M/S.Transcom Ltd.,the second lowest bidder.The Tender Committee decided that M/S.Transcom Ltd.would inform whether they are willing to supply at the lowest price quoted by M/S BEXIMCO Ltd.along with country of origin and last date of shipment.

21.4.87

Tender Committee again meets. The Committee is informed that (a) M/S.BEXIMCO mentioned that Belgium would be the country of origin of their supply. They indicate without confirming that shipment would be possible by August,87.
(b) M/S.Transcom Ltd.informs that they could not contact their principal due to holidays of Easter and requested for extension of the offer upto 22.4.87

21.4.87

Tender Committee decides the following :

- (a) The tender of the lowest bidder, M/S.BEXIMCO Ltd.,be accepted. The Committee recommends to procure 3,700 MT of Cold Rolled B.P.Coil from BEXIMCO at the rate of US\$429.50(C&F) per MT. The last date of acceptance of the offer would be 27.4.87.
- (b) The request of the second lowest bidder M/S.Transcom Ltd.for extension of the offer upto 22.4.87 be agreed upon.

22.4.87

The recommendation of the Tender Committee placed before the meeting of the Board of Directors of BSEC. The Board accepts the recommendation made by the Tender Committee.

22.4.87

M/S.Transcom Ltd.in reply to BSEC's offer dated 20.4.87 furnish the following information :

- (a) country of origin of supply :Belgium
- (b) last date of shipment : August,1987
- (c) price (C & F) :429.50 per MT.
- (d) last date of acceptance of offer:29.4.89.

- 26.4.87 M/S.Transcom Ltd.in supersession of their previous letter informs the following :
- (a) country of origin of supply : South Korea.
 - (b) last date of shipment :August,1987
 - (c) price (C&F) :429.50 per MT.
 - (d) last date of acceptance of offer : 29.4.89
- 28.4.87 The recommendation of the Tender Committee for accepting the offer of M/S.Transcom Ltd.was placed before the members of the Board of Directors of BSEC through circulation.
- 28.4.87 An emergency meeting of the Board is proposed. The proposal was agreed upon.
- 6.5.87 Instead of holding an emergency meeting of the Board,the recommendation of the Tender Committee is again placed before the members of the Board through circulation and it is approved.
- 20.5.87 A meeting held in BSEC to consider amendment of certain terms and conditions of the tender M/S.BEXIMCO Ltd. The proposed amendments of the terms and conditions are : (a) acceptance of charter party bill with the condition of liner delivery and (b) acceptance of the thickness of 0.70 mm instead of 2.50 mm of the inner tube sheet of coil.Also the proposal of M/S.BEXIMCO Ltd. for supply of additional 300 MT of C.R.B.Coils at the same price is approved.
- 29.6.87 A meeting held in BSEC to consider the request of M/S.Transcom Ltd. for extension of the last date of shipment upto October,87. The request is examined and decides to extend upto September,87.
- 30.8.87 M/S.Transcom Ltd.requested for some modification in the specification of the C.R.Steel Strips.
- 2.9.87 The request of M/S.Transcom Ltd.is considered.
- 29.9.87 M/S.Transcom Ltd.informs that shipment of 2999.08 MT out of 3700 MT has already been done. They again request for extending the shipment period for the rest 700 MT upto 31.10.87 which is accepted.

CHAPTER -V

ISSUES AND RECOMMENDATIONS

Issues

From the analysis of the cases presented in Chapter IV, the following issues emerge :

1. Inadequate Delegation of Financial Authority

Upto 16.5.1983 the financial power delegated to BSEC for foreign procurement was to the tune of Tk.2 crores. For economy of purchase and taking quick decision, MOI enhanced the power to Tk.5 crores in respect of purchase of pig iron and B.P. Sheet from abroad (vide Ministry of Industries Memo.No.MI/CB-1/M(46)/83-315 dated 17.5.83). Subsequently in 1985 Ministry of Finance (Vide Memo.No.MF/FD/ABW/S-1/124/85 dated 6.7.85) raised the purchasing power of all large sector corporations including BSEC in respect of all items upto Tk.5 crores. Since 1985 price of the major inputs such as steel scrap, B.P. sheet, pig iron etc. has been showing an erratic trend in the international market (price list is given at Annexure-E).

With the present delegated financial power to BSEC, i.e. Tk.5 crores, it is possible for BSEC to import 2300 MT B.P. sheet which will cater to the needs of CSM for 15 days only. Likewise a quantity of about 8,000 MT steel scrap/pig iron can be imported with the same amount of money. But the monthly requirement of B.P. Sheet for CSM is 4500 MT and that of pig iron and steel scrap is 8000 MT each. In consideration of monthly needs of the CSM and shipment, import of 10,000 MT is economic. But the value of import of this quantity would go beyond the financial powers of the BSEC for which concurrence of the MOI is required.

In case no.1 CSM sent a detailed procurement proposal to the BSEC on 11.9.85 for import of 10,000 MT of Heavy Melting Steel Scrap No.1 and 10,000 MT of Bundle Steel Scrap No.2 during 1986-87. The BSEC in turn sent the proposal to the MOI on 16.10.85. On several occasions, the CSM requested the BSEC informing about the alarming situation of stock. BSEC in turn communicated the same to the Ministry. After one year, i.e. on 11.10.86, the Ministry approved in principle the import proposal and the tenders recommended by Board of Directors received approval from the Ministry on 12.3.87.

Delegation of financial powers to enterprises for import of raw materials is limited i.e. upto Tk.2 crores; beyond this financial limit, corporations undertake procurement function for the enterprises placed under them. Analysis of case no.2 reveals that on 11.4.87 the BSEC invited quotations for import of

3,500 MT (+-10%) Cold Rolled (CR) steel stripes for the CSM. The first meeting of the Tender Committee of the BSEC was held on 20.4.1987 and the recommendations of the committee were finally approved by the Board of Directors on 6.5.87. Thus it is evident that it took more than a month to take a decision on procurement. Of the two cases, case no.2 took less time in decision making process than case no. 1. Had adequate financial powers been delegated to the CSM, probably it would have taken even less time to take decision and do the needful.

2. Right of Refusal (ROR) System

According to the Cabinet Division's Office Memo No.MEO(POLICY)-23/CD/82 dated 9.4.82, procurement agencies of the government/autonomous bodies will first obtain the right of refusal (ROR) from the MOI before they place orders for their requirements with the foreign suppliers. This system is meant to act as a check on the use of imported materials when local products could meet the requirement. The story of case no.1 tells us that on 13.10.86, the MOI advised BSEC for obtaining ROR from the Ministry. Accordingly, BSEC submitted necessary papers to the Ministry for issuance of ROR on 1.11.86 and reminder was issued on 23.11.86. Even after the approval of the procurement proposal by the Ministry on 11.10.86 and approval of recommended tenders on 12.3.87, Ministry asked BSEC for submission of necessary papers/documents for issuance of ROR on 15.3.87. This created confusion and BSEC clarified the position to the Ministry on 20.3.87.

3. Lengthy and Cumbersome Procurement Procedure

By a Cabinet Order all imports except proprietary items such as CKD imports into engineering sector, were to be procured through public tender. If the estimated value of purchase is Tk.10,000 or above, the tender has to be advertised in newspapers. Tenders have to be published, received, scrutinized and evaluated within a prescribed schedule of time. This tender provision is reinforced by procurement rules of specialized agencies such as the IDA whose commodity loans are an important source of finance for the input needs of the industrial sector. Regarding tendering formalities Sobhan and Ahmad write, "From Pakistan days most public procurement through tenders gave rise to a class of indentors who used influence with bureaucrats, bribery and political pressure where it could be commanded to promote their foreign principals. Given the rigidities of the system, the supplier needed a local agent to follow up on the evaluation of the tender, to see that letters of credit are opened and to grease the path of the tender where needed¹⁹.

19. Rehman Sobhan and Muzaffer Ahmad, Public Enterprises in an Intermediate Regime: A Study in the Political Economy of Bangladesh (1980), p.460

An analysis of the cases reveals the fact that BSEC still follows the Manual of Purchase Procedure (Part I & II) which was prepared by the erstwhile EPIDC(1967) with some modification. The Manual sets forth a number of steps for procurement of materials from abroad viz.(i)preparation of SPR (ii) scrutiny of SPR (iii) methods of purchase (advertisement in newspapers)(iv)preparation of tender enquiry/schedule,(v)formation and functioning of Tender Committee, (vi) obtaining import licence,(vii) establishing letter of credit(L/C),(viii) receipt and retirement of shipping documents, (ix)customs clearance and despatch to consignees. All these stages of procurement take a lot of time in decision making process.

From case no.1 it appears that international tender notice appeared in the local dailies on 23.10.86. In response to the tender notice,tenders were received.After observing necessary tendering formalities,the recommended tenders received approval from the MOI on 12.3.87. Thus it took about 4 months to get the tenders approved by the Ministry. Even in case no.2 it took more than a month to take decision on procurement. This time lag may be considered to be comparatively high when the authority of BSEC was competent to take all decisions to procure the same within their financial limit. In this decision making process no outside agency was involved. The time lag involved in both cases may be attributed to the delay in decision making process caused by lengthy and cumbersome procurement procedure.Flow charts showing cases 1 and 2 are given at Annexures F and G respectively.

4. External Pressure

Sometimes undue external pressure creates procurement cumbersome. As we find in case no. 1 that CSM was very concerned with pressure of the private suppliers mostly from the Ship Breakers Association(SBA).CSM expressed its concern in a letter to BSEC "we request to protect CSM from the far-reaching collusive activities of SBA and to allow CSM to import 25,000 MT of steel scrap".At the initial stage, SBA negotiated with the MOI to stop the import and Ministry suggested BSEC to resolve the matter by negotiation. Tripartite meeting (Ministry,BSEC and SBA) was also held. Apart from this three bidders namely Trade Venture,Meghna Enterprise and Jamal & Brothers managed to get recommendations from Deputy Prime Minister or State Minister for Industries and thereby tried to influence BSEC in their favour.

5. Control of Foreign Exchange

The issues highlighted above are some of the constraints in the sphere of decision making process. Another control mechanism which adds insult to injury of autonomy is exercised through the allocation and release of foreign exchange provided by the government for import requirement. This is generally provided from domestic foreign exchange earnings which are supplemented by credit,commodity aid,barter and STA.

As is evident from Table-4 that only 5.64% of the value of total procurement during 1982-83 to 1986-87 was done with cash foreign exchange. Table-6 shows foreign exchange allotted to BSEC against its demand or budget.

TABLE-6
AVAILABILITY OF FOREIGN EXCHANGE
(in crore taka)

Year	Foreign Exchange Budget(cash)	Allocation of Foreign Exchange	%
1984-85	40.07	10.30	25.71
1985-86	81.95	7.0	8.54
1986-87	87.57	-	-
Total	209.59	17.30	

Source : BSEC (Finance Division)

In 1984-85 and 1985-86 BSEC received 25.71% and 8.54% respectively of its required allocation of foreign exchange. In 1986-87 it prepared a foreign exchange budget of 87.57 crore taka but received no money.

None of the two cases on foreign procurement was made with cash foreign exchange. In case no.1 procurement was made with WES and also under Barter/STA and in case no.2 under Barter/STA.

Recommendations

Some recommendations are given for resolving the issues mentioned above.

1. Delegation of Adequate Financial Power

In both cases decision on procurement was delayed mainly due to lack of adequate financial power. For the sake of economic and timely purchase, corporations should be delegated adequate financial authority so that they can purchase according to their needs. Of course this procurement would be undertaken within the broad policy framework of the government. In a similar fashion enterprises should be delegated adequate authority so that they can purchase at least two months of their requirement at a time. This financial power should be revised from time to time considering the price position of materials in the international market. It may not be out of place to mention that on 21.9.88 BSEC wrote to the Ministry for enhancing their financial power for purchase from Tk.5 crores to Tk.10 crores. After about 2 months (i.e. on 10.11.88) MOI replied by asking for more strong justifications for enhancement of power. Again on 3.12.88 BSEC responded giving justifications. Till writing the report (June 30, 1989) no further reply was received from the Ministry in this regard.

2. Rationalization of the System of Right of Refusal

The system of right of refusal has never been very successful because it operated too late in the sequence of events related to procurement. It involves trying to impose a major reversal in procurement after contractual arrangements with donors had already been entered into, and usually succeeded only in delaying procurement. Case No.1 is a glaring example. So the system of ROR needs to be rationalised. There should be specific list of items requiring ROR. Both procurement proposal and ROR may be handled simultaneously. In this case, since almost entire raw materials of steel and engineering sector have to be imported, the system of ROR becomes redundant. So it may be argued that at least for steel and engineering sector, ROR may be abolished.

3. Simplification of Procurement Procedure

Existing tendering formalities make public sector procurement procedures lengthy and cumbersome. Procurement procedures need to be simplified so that the public enterprises can take full advantage of the international market in matters of procurement by making need-based purchase. It may be mentioned in this connection that keeping in view the contemporary needs and state policies, BSEC has modified and updated the Manual of Purchase Procedure prepared by the erstwhile EPIDC and published a Purchase Manual (February, 1989). The Manual is divided into three broad parts: Guidelines, Procedures and Forms and Documents. The newly published Manual is a definite improvement upon the previous one. However, steps may be taken for further improvement.

4. Timely Allocation of Sufficient Foreign Exchange for Procurement

In order to enable the public enterprises to import from the competitive and cheapest source, attempt should be made to make available sufficient foreign exchange to them in time. In case of scarcity of cash foreign exchange as it prevails in Bangladesh, untied credit should be preferred to tied credit since the former allows some amount of freedom in purchase.

5. Performance Contracting

In LDCs the governments have been complaining of lack of adequate control over public enterprises and the public enterprises have been making allegation against excessive interference by the governments. This conflict between control and autonomy impings upon the efficiency and profitability in the public enterprises. Performance contracting is one of the powerful tools of management recently developed for resolving the conflict. It is a legal document formulated through a process of negotiation signed by the government on the one hand and an enterprise on the other, stating largely in quantitative terms the medium term financial, physical and economic targets of the

enterprise and the commitment of the government. In performance contracting autonomy is consistent with accountability. Enterprises are held responsible for their end results. As such efficient procurement may be ensured under the system²⁰.

Conclusion

This study makes an attempt to highlight the present state of delegation of authority to public enterprises in Bangladesh, its adequacy and implications and suggests a more rational structure of delegation of authority through the study of a specific area viz. procurement of materials from abroad by BSEC. Two cases on procurement have been narrated in the study : (i) procurement made with the approval of Ministry of Industries and (ii) procurement made by BSEC. Both cases unfold the story of decision making process (both financial and managerial) at various stages of procurement. Considerable delays have been noticed at different stages upsetting the production schedule, thereby affecting performance.

Issues identified in the study are as follows : (i) lack of adequate delegation of financial power at the appropriate level, (ii) right of refusal system, (iii) lengthy and cumbersome procurement procedure, (iv) external pressure and (v) control of foreign exchange. Finally, the study makes some recommendations for resolving the issues, thereby improving the performance of public enterprises in Bangladesh. However, the implementation of the measures suggested in the study mainly depends on the political will and determination.

20. For an insightful analysis of performance contracting, see M.H.Rashid: Performance Contracting: Case Study of a Public Enterprise in Bangladesh.

ANNEXURE-A

SHARE OF PUBLIC ENTERPRISES IN THE ECONOMY

	FY 1973-74				FY 1984-85			
	No. of PEs	Value added by PEs Tk.M	Value added by sector Tk.M	% share of sector	No. of PEs	Value added by PEs Tk.M	Value added by sector Tk.M	% share of sector
Agriculture	2	4.3	40270	-	3	18	181973	-
Mining & manufacturing	323	2845.4	4140	68.7	196	5495	32513	16.9
Construction	3	7.8	2813	0.3	14	89	19796	0.4
Transport & communication	7	343.1	4238	8.1	11	1795	25674	7.0
Trade, restaurants & hotels	11	212.2	6315	3.4	34	2992	33133	9.0
Housing	-	-	3969	-	-	-	25843	-
Public admin. & defence	-	-	1750	-	-	-	16728	-
Banking and insurance	12	681.5	634	?	18	4552	5606	81.2
Prof. & misc. services	1	3.0	4733	-	4	38	32482	0.1
Total	363	4187.5	68977	6.1	283	16742	376042	4.5

Source : Reproduced from M.H.Rashid : Public Enterprises in Bangladesh- A Survey (1988).

LIST OF PUBLIC SECTOR CORPORATIONS IN BANGLADESH

A. Industrial Sector

1. Bangladesh Chemical Industries Corporation
2. Bangladesh Steel and Engineering Corporation
3. Bangladesh Sugar and Food Industries Corporation
4. Bangladesh Small and Cottage Industries Corporation
5. Bangladesh Textile Mills Corporation
6. Bangladesh Handloom Board
7. Bangladesh Sericulture Board
8. Bangladesh Jute Mills Corporation
9. Bangladesh Jute Corporation
10. Telephone Shilpa Sangstha Ltd.
11. Bangladesh Export Processing Zones Authority
12. Bangladesh Film Development Corporation
13. Bangladesh Mukti Joddha Kalyan Trust

B. Financial and Insurance Sector

14. Sonali Bank
15. Janata Bank
16. Agrani Bank
17. Rupali Bank
18. Bangladesh Krishi Bank
19. Bangladesh Shilpa Bank
20. Bangladesh Shilpa Rin Sangstha
21. Investment Corporation of Bangladesh
22. Bangladesh House Building Finance Corporation
23. Sadharan Bima Corporation
24. Jiban Bima Corporation

C. Transport and Tourism Sector

25. Bangladesh Inland Water Transport Corporation
26. Bangladesh Inland Water Transport Authority
27. Bangladesh Shipping Corporation
28. Chittagong Port Authority
29. Port of Chalna Authority
30. Bangladesh Road Transport Corporation
31. Bangladesh Biman
32. Civil Aviation Authority
33. Bangladesh Parjatan Corporation

D. Agriculture and Water Resources Sector

- 34. Bangladesh Agricultural Development Corporation
- 35. Bangladesh Forest Industries Development Corporation
- 36. Bangladesh Fisheries Development Corporation
- 37. Bangladesh Tea Board
- 38. Bangladesh Water Development Board
- 39. Dhaka Water Supply and Sewerage Authority
- 40. Chittagong Water Supply and Sewerage Authority

E. Energy Sector

- 41. Bangladesh Oil, Gas and Mineral Corporation
- 42. Bangladesh Petroleum Corporation
- 43. Bangladesh Power Development Board
- 44. Rural Electrification Board

F. Area Development and Spatial Planning Sector

- 45. Dhaka Improvement Trust
- 46. Chittagong Development Authority
- 47. Khulna Development Authority
- 48. Rajshahi Town Development Authority

G. Trading Sector

- 49. Trading Corporation of Bangladesh
- 50. Bangladesh Consumers Supply Co. Ltd.

Source : The Bangladesh Gazette, Extraordinary, July, 1986.

ANNEXURE-C

LIST OF ENTERPRISES UNDER BANGLADESH STEEL AND
ENGINEERING CORPORATION

<u>Enterprise</u>	<u>Products</u>
A. <u>Steel Sector</u>	
1. Chittagong Steel Mills Ltd. (Ex-BIDC)	Steel Ingot Billet 110/85 M.S.Angle Billet 50/65 mm M.S.Rod B.P.Sheet Thin Plate CGI Sheet Heavy Plate Sheet Bar & Slab
2. National Tubes Ltd. (Nationalised on 17.5.72)	MS/GI/API Pipe
B. <u>Engineering Sector</u>	
3. Bangladesh Machine Tools Factory Ltd. (Ex-BIDC) *(4.8.79)	Machine Tools Agricultural Equipments, Jute, Sugar, Textile Industries, Machineries etc.
4. Bangladesh Diesel Plant Ltd. (Ex-BIDC) *(11.11.81)	1-6 Cylinder Diesel Engine
5. Bangladesh Can Company Ltd. (Nationalised on 18.5.72)	Decorated Can
6. Bangladesh Blade Factory (BSEC's own Project)	Safety Razor Blade

C. Electrical & Electronics

- | | | |
|-----|---|--|
| 7. | General Electric Manufacturing Co.Ltd.(Ex-BIDC)
*(8.12.79) | Transformer
Disconnecter
Lightning Arrestor |
| 8. | Eastern Cables Ltd.
(Ex-BIDC)*(18.12.86) | Electric Cables |
| 9. | Gazi Wires Ltd.
(Nationalised on 17.5.72) | SEC Wires/HDBC |
| 10. | Metalex Corporation Ltd.
(Nationalised on 17.5.72) | Ceiling Fan |
| 11. | Mehar Industries Bangladesh Ltd.(Nationalised on 26.6.73) | Television,Air Cooler,
Refrigerator,Ceiling Fan,
Ballast |
| 12. | Eastern Tubes Limited
(Nationalised on 17.5.72) | F.L.Tube Light |

D. Transport Sector

- | | | |
|-----|---|---|
| 13. | Progati Industries Ltd.
(Nationalised on 17.5.72) | Bus Chassis & Body,Truck
Chassis & Body, Jeep,Car,
Pick-up,Tractor & Equipment. |
| 14. | Atlas Bangladesh Ltd.
(Nationalised on 17.5.72) | Motor Cycle
Mishuk (Motor Rickshaw) |
| 15. | Bangladesh Cycle Industries Ltd.(Nationalised on 4.6.73) | Bi-cycle |
| 16. | Dockyard & Engineering Works Ltd.(Narayanganj)
(Ex-BIDC) | Water Vessels |
| 17. | Khulna Shipyard Ltd.
(Ex-BIDC) | Water Vessels |
| 18. | Chittagong Dry Dock Ltd.
(Ex-BIDC)*(14.3.85) | Ship Repair etc. |

E. Miscellaneous

- | | | |
|-----|---|--------------------|
| 19. | Dhaka Steel Works Ltd.
(Nationalised on 18.5.72) | M.S.Rod & Flat Bar |
| 20. | Prantic Traders
(Nationalised on 18.5.72) | Enamel Ware |
| 21. | Quality Iron & Steel Company
(Nationalised on 18.5.72) | C.I.Products. |

* Dates of incorporation as a Public Limited Company under the Companies Act (Act VII) of 1913.

ANNEXURE-D

PERFORMANCE OF BSEC

(in crore taka)

Particulars	1982-83	1983-84	1984-85	1985-86	1986-87
Production	211.73	298.85	354.03	365.53	366.48
Sales	229.81	368.49	396.31	389.74	411.34
Net Profit/(Loss)	(27.29)	(15.04)	(3.61)	(0.54)	(1.48)
Inventory	291.42	240.91	264.66	330.58	347.60
Finished Products	77.57	49.54	49.98	82.83	93.08
Work-in-Process	51.24	38.18	33.70	49.73	41.69
Raw Materials,	162.61	153.19	180.98	198.02	212.83
Stores and Spares					
Contribution to					
National Exchequer	41.84	81.12	104.50	104.86	91.03
Duties and Taxes	41.84	80.12	103.50	103.86	90.03
Profit Contribution	-	1.00	1.00	1.00	1.00

Source : BSEC Annual Reports 1982-83 & 1986-87.

ANNEXURE-E

PRICE LIST OF 2 MAJOR INPUTS OF BSEC

B.P.Sheet

<u>Year</u>	<u>Date of Contract</u>	<u>C&F(c)Price per MT</u>
1984	12.7.84	US\$421.00
	4.11.84	US\$394.67
	17.11.84	US\$400.62
1985	23.2.85	US\$393.97
	16.3.85	US\$404.00
	27.5.85	US\$370.00
1986	28.7.86	US\$398.00
	7.8.86	US\$407.25
	27.9.86	US\$399.75
1987	20.4.87	US\$393.00
	28.4.87	US\$429.50
	21.9.87	US\$483.00
1988	8.3.88	US\$573.00
	11.5.88	US\$631.25
	13.8.88	US\$657.00

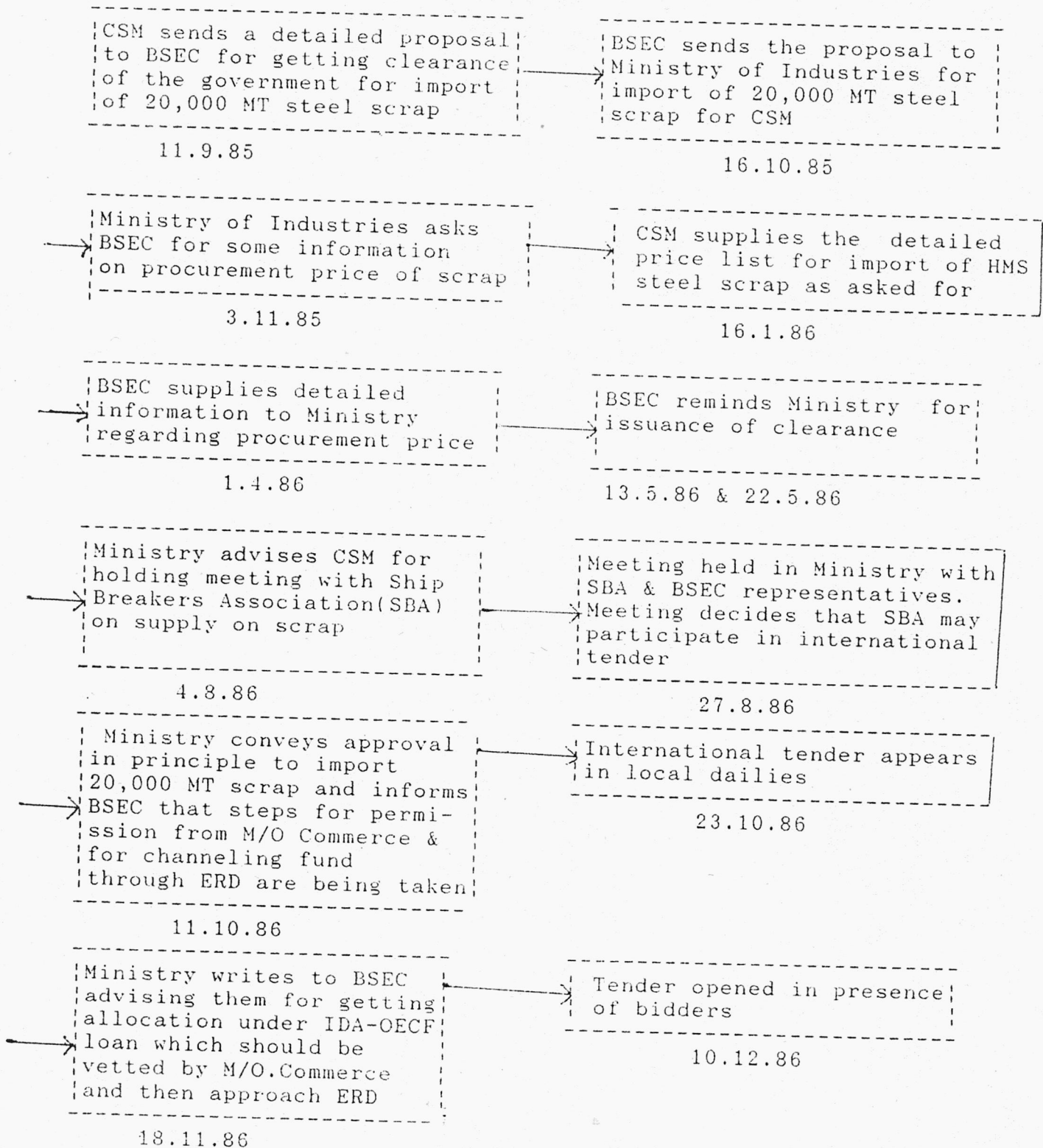
Pig Iron

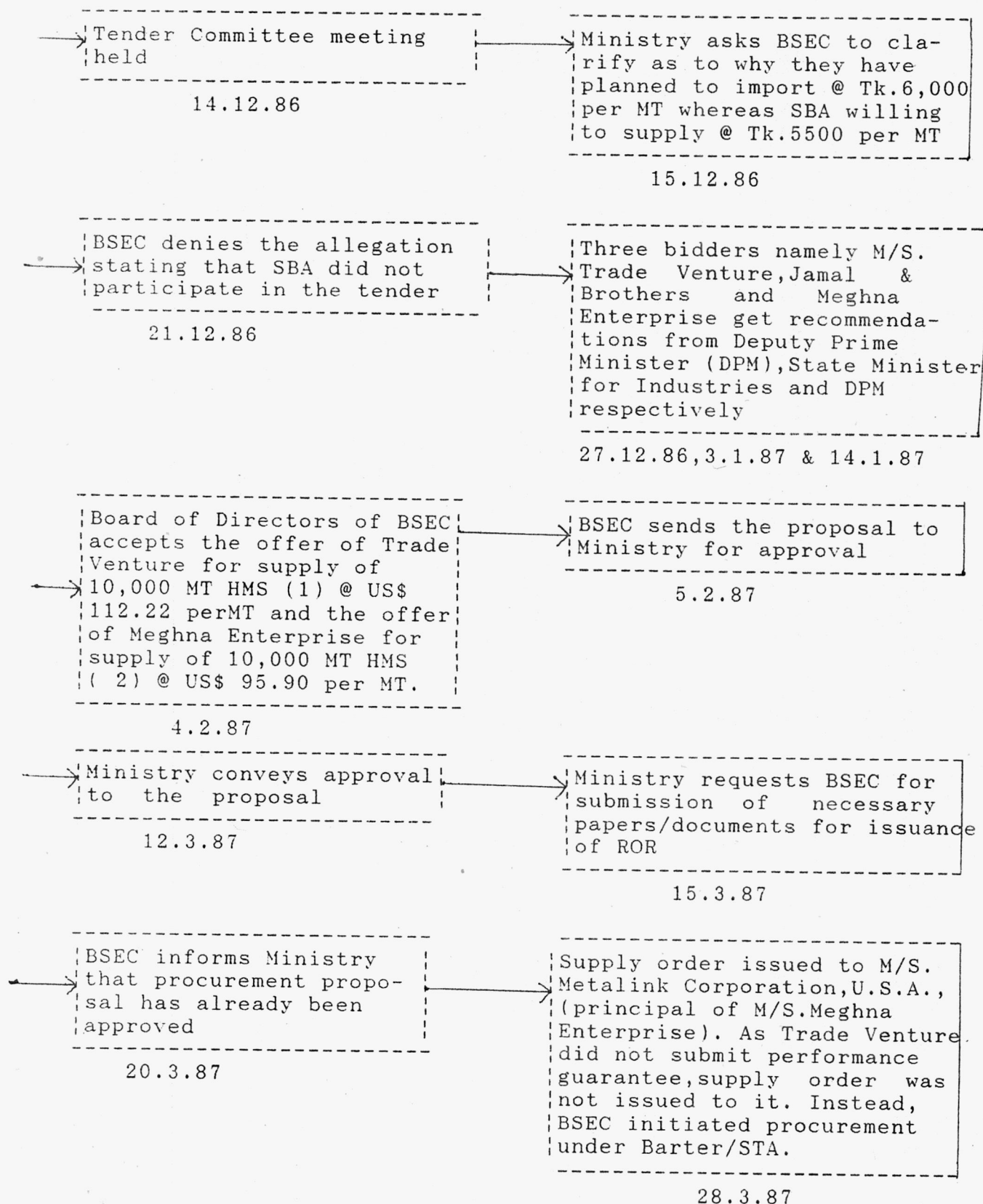
1984	22.4.84	US\$136.00
	2.8.84	US\$154.60
	16.8.84	US\$158.60
1985	12.3.85	US\$158.50
	4.4.85	US\$161.50
	20.7.85	US\$163.50
1986	23.11.86	US\$146.90
1987	31.8.87	US\$126.96
1988	17.4.88	US\$155.50
	23.6.88	US\$152.95

Source : BSEC (Purchase Division)

ANNEXURE-F

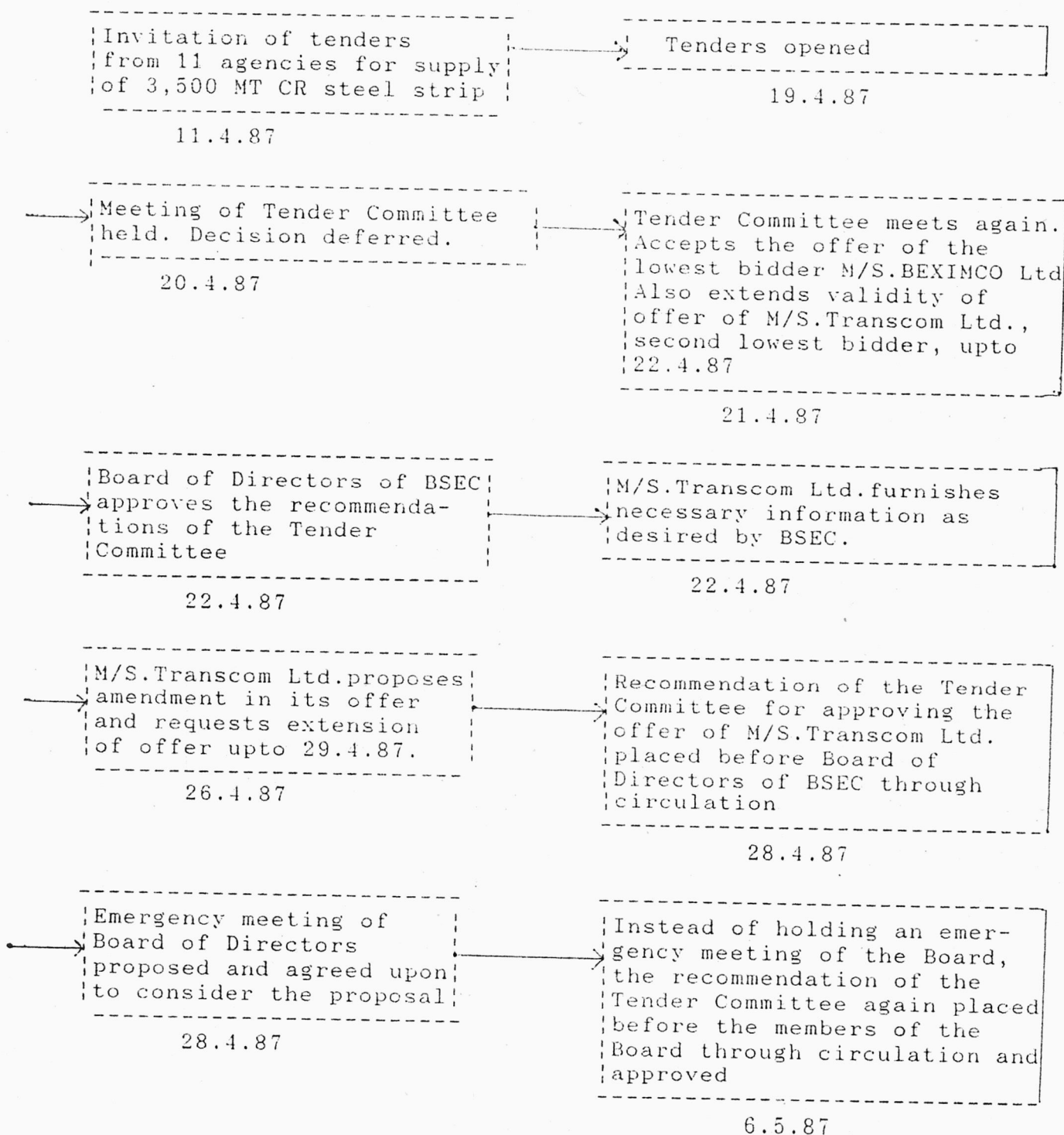
FLOW CHART SHOWING CASE NO.1





ANNEXURE-G

FLOW CHART SHOWING CASE NO.2



→ Amendment of certain terms and conditions proposed by M/S.BEXIMCO Ltd.approved by BSEC. Proposal for supply of additional 300 MT of CRB coils at the same price approved

20.5.87

→ BSEC extends last date of shipment by M/S.Transcom Ltd. upto September,1987

29.6.87

→ M/S.Transcom Ltd.requests for some modification in the specification of CR steel strips

30.8.87

→ Request of M/S.Transcom Ltd. considered

2.9.87

→ Shipment of 2999.08 MT out of 3700 MT already made by M/S.Transcom Ltd. They request for extending the shipment period for rest 700 MT upto 31.10.87 which is accepted

29.9.87

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