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Report No. 9083

PROJECT COMPLETION REPORT

BANGLADESH

JUTE INDUSTRY REHABILITATION PROJECT
(CREDIT 1032-BD)

OCTOBER 22, 1990

Industry and Energy Operations Division
Asia Regional Office

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CURRENCY EQUIVALENTS

The value of the Bangladesh Taka is fixed in relation to a basket of reference currencies. The official exchange rates at appraisal and in December 1986 are as follows:

Appraisal		December 1986	
US\$ 1	= Tk 15.5	US\$ 1	= Tk 30.30
Tk 1	= US\$ 0.0645	Tk 1	= US\$ 0.0330

ABBREVIATIONS AND ACRONYMS

ADP	-	Annual Development Program
BJMC	-	Bangladesh Jute Mills Corporation
BJMA	-	Bangladesh Jute Mills Association
BMR	-	Balancing, Modernization and Replacement
BSB	-	Bangladesh Shilpa Bank
BSRS	-	Bangladesh Shilpa Rin Sangstha
CBC	-	Carpet Backing Cloth
GOB	-	Government of Bangladesh
MIS	-	Management Information System
PAS	-	Process Accounting System
UNDP	-	United Nations Development Program
UNIDO	-	United Nations Industrial Development Organization

FISCAL YEAR (FY)

July 1 - June 30

WEIGHTS AND MEASURES

1 crore	=	10 million
1 lakh	=	100,000
1 maund (md) = 40 seers	=	82.29 lbs
1 (pucca) bale	=	400 lbs
1 long ton	=	2,240 lbs
1 metric ton	=	2,200 lbs

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THE WORLD BANK
Washington, D.C. 20433
U.S.A

Office of Director-General
Operations Evaluation

October 22, 1990

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Report on Bangladesh
Jute Industry Rehabilitation Project
(Credit 1032-BD)

Attached, for information, is a copy of a report entitled "Project Completion Report on Bangladesh - Jute Industry Rehabilitation Project (Credit 1032-BD)" prepared by the Asia Regional Office. No audit of this project has been made by the Operations Evaluation Department at this time.

A handwritten signature in black ink, appearing to be 'R. P. ...', is written over a horizontal line.

Attachment

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PROJECT COMPLETION REPORTBANGLADESHJUTE INDUSTRY REHABILITATION PROJECT

(CREDIT 1032-BD)

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PROJECT COMPLETION REPORT

BANGLADESH

JUTE INDUSTRY REHABILITATION PROJECT
(CREDIT 1032-BD)

PREFACE

This Project Completion Report (PCR) reviews and evaluates the implementation and performance of the Jute Industry Rehabilitation Project (Credit 1032-BD) in Bangladesh. The US\$20 million credit was approved on June 4, 1980, declared effective on July 22, 1980, and closed on June 30, 1986, after three extensions. At project closing US\$14.1 million (71% of the credit) was disbursed, and \$5.9 million was cancelled.

The PCR was prepared by the Industry and Energy Operations Division of the Asia Regional Office of the Bank, and is based, inter alia, on the Staff Appraisal Report, legal documents, supervision reports, internal Bank memoranda, and data provided by the Bangladesh Jute Mills Corporation (BJMC) and the Bangladesh Jute Mills Association (BJMA).

The PCR was read by the Operations Evaluation Department. The draft PCR was sent to the Borrower for comments, and they are appended to the Report as Annex 7.

PROJECT COMPLETION REPORT

BANGLADESH

JUTE INDUSTRY REHABILITATION PROJECT
(CREDIT 1032-BD)

BASIC DATA SHEET
(US\$M)

I. Credit Status (As of April 30, 1990)

<u>Original</u>	<u>Disbursed</u>	<u>Cancelled</u>	<u>Repaid</u>	<u>Outstanding</u>
20.00	14.20	5.80	0.00	14.20

II. Cumulative Credit Disbursement

	<u>FY80</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>
1. Planned	6.0	14.0	20.0	20.0	20.0	20.0	20.0
2. Actual	0.2	3.9	5.8	7.5	8.8	13.1	14.2
Σ	1.0	19.5	29.0	37.5	44.0	65.5	71.0

III. Other Project Data

	<u>Actual</u>
Board Approval	05/29/80
Credit Agreement	06/04/80
Effectiveness	07/22/80
Credit Closed	06/30/86

Borrower People's Republic of Bangladesh
 Executing Agency Bangladesh Jute Mills Corporation

IV. Credit Components (US\$ million)

	<u>Appraisal</u>	<u>Closing</u>
A. Rehabilitation	9.52	8.88
B. Preventive Maintenance	9.60	4.61
C. Provision of Weighing Scales	0.25	0.13
D. Training Program/Centers	0.13	0.48
E. Consultants	0.40	0.08
F. Unallocated	0.10	0.00
TOTAL	20.00	14.18
	=====	=====

MISSION DATA

	<u>Month Year</u>	<u>No. of Days</u>	<u>No. of Persons</u>	<u>Staff Weeks</u>	<u>Date of Report</u>
Preappraisal	09/79	13	3	7.8	09/08/79
Appraisal	12/79	15	3	9.0	05/07/80
Supervision	10/80	14	2	5.6	11/07/80
Supervision	03/81	15	1	3.0	03/26/81
Supervision	08/81	20	1	4.0	08/19/81
Supervision	12/81	19	1	3.8	01/20/82
Supervision	08/82	7	1	1.4	09/27/82
Supervision	05/83	5	3	3.0	06/03/83
Supervision	06/84	4	3	2.4	08/10/84
Supervision	11/84	4	3	2.4	11/21/84
Supervision	03/85	4	2	1.6	04/03/85
Supervision	03/86	6	2	2.4	04/11/86
Completion	03/87	12	2	4.8	04/10/87

STAFF INPUT
(manweeks)

	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>TOTAL</u>
Preparation	30.0							30.0
Appraisal	36.0							36.0
Negotiations	6.0							6.0
Supervision		8.6	7.8	4.4	6.4	2.4	4.8	34.4
	<u>52.0</u>	<u>8.6</u>	<u>7.8</u>	<u>4.4</u>	<u>6.4</u>	<u>2.4</u>	<u>4.8</u>	<u>106.4</u>

PROJECT COMPLETION REPORT

BANGLADFSH

JUTE INDUSTRY REHABILITATION PROJECT
(CREDIT 1032-BD)

EVALUATION SUMMARY

1. Credit 1032-BD was approved on June 4, 1980, declared effective on July 22, 1980, and closed on June 30, 1986. The US\$20 million IDA credit was provided to GOB for revitalizing the jute mill sector through:

- (a) improvement of production systems by balancing, modernization, and replacement and preventive maintenance of the machinery in the mills;
- (b) institution building through improved organizational structure, better cost control and accounting systems, and expanded management/staff training; and
- (c) improving the capability of GOB for policy analysis and strategic planning for the jute sector. At project closing, US\$14.2 million was disbursed and the rest was cancelled.

2. IDA has been involved in Bangladesh's jute industry since 1975 when it conducted a study that was the basis for the jute action programs of the Fourth and Fifth Imports Program Credits. These programs focussed on improving marketing, production planning and maintenance work. In 1977, under the Sixth Imports Program Credits, the problems of mill efficiency and profitability were focussed on, the scope of previous efforts were broadened and measures were introduced to strengthen the organization, management and financial aspects of BJMC. The Seventh Imports Program Credit focussed on the implementation of pending actions agreed under previous import credits, and introduced efforts towards export development. In FY87, IDA completed a sector report (Report No. 6161-BD) which analyzed in detail the key issues facing the jute sector and made recommendations.

3. The key objective of the project--reviving a declining industry through improving efficiency of the mill sector and restoring its financial viability--has not been met. While efficiency and productivity of individual machines has improved as a result of the project, these gains neither translated into overall improvements nor were adequate to overcome adverse changes in costs and consequently, the mill sector is in worse shape today than it was five years ago. Compared to the late 1970s, overall productivity and efficiency during FY84-86 are lower or about the same (para. 5.02). In the case of the public sector (BJMC) mills, unit conversion costs (US\$/ton) have increased by about 80% over this period compared to about 46% increase in unit sales price (para. 5.07); although some of this adverse cost/price ratio was dampened by lower raw jute price, overall losses were substantial. Financial performance of private (BJMA)^{1/} mills was generally similar. From FY80 to FY86, losses of BJMC and BJMA mills amounted to about 11% of total sales, or about Tk 3.9 billion. In FY86 alone, the jute mill sector losses totaled about Tk 2.4 billion representing roughly 0.5% of GDP at current

^{1/} BJMA: Bangladesh Jute Mills Association - an association of private mills.

market prices. As a result of the large and continuing losses, the financial restructuring, implemented under the project, was unable to restore the financial viability of the mills.

4. The project components designed to strengthen the institutional aspects--reorganization of BJMC, and strengthening of its MIS, financial/ process accounting and budgeting systems, production incentive systems, and establishment of Jute Strategy Cell--have also not achieved their objectives. The organization study has been completed, but so far few of its recommendations have been implemented. The MIS is operational, but the data it receives is not thoroughly checked and therefore, the quality and consistency of reports is poor. A production incentive scheme and a process accounting system were developed by consultants, but neither has been implemented because of lack of enthusiasm by BJMC and its reservations on the proposed schemes. The audit backlog was cleared up, but audit reservations were carried forward year after year without remedial actions, consequently defeating the ultimate purpose of the audits. The Jute Strategy Cell is in operation, but there are serious doubts on the effectiveness of the cell to perform strategy formulation tasks within a bureaucratic setting. The training center is perhaps the more successful component of this credit. Despite its share of problems, it has trained since FY85 some 990 officers and 2,110 staff/workers in the mill sector, and the feedback from the trainees has been encouraging. Mid-way during project implementation, about half the project mills were denationalized. This move adversely impacted on the institution building and the rehabilitation components (paragraph 4.02).

5. The project failed to realize its objectives because GOB did not address the basic issues, closing down of inefficient mills and inadequate autonomy of BJMC. GOB interventions, in raw jute price support schemes and public and industrial sector wage setting and its policy limiting the autonomy of mill managers in operational and employment issues resulted in not only the continued operation of inefficient high cost mills, but also inflexibility in reducing conversion costs. This lack of attention to key performance determinants dwarfed any gains from improvements at machine level. The private sector was also adversely influenced by GOB policies and the control of a large part of the industry by the public sector--the practices and policies of the latter exert tremendous influence on the overall operating norms and environment of the industry. Further aggravating the problem, world market demand for jute goods was depressed, and competition from synthetics increased.

6. In summary, even though the project did not meet its objectives, valuable lessons have been learned, particularly on the importance of autonomy to the success of public enterprises and the need for efficient exit policies for reversing the decline of marginal industries (para. 7.03). A number of GOB policies/actions--labor market interventions leading to rigidities, financing of losses through the budget or the banking system--have prevented exit of unviable and inefficient firms, thus making it difficult for the more efficient firms to grow and prosper.

7. To arrest and reverse the continued deterioration of the jute mills, immediate GOB actions should be directed to: (a) restructuring/closing of high cost BJMC mills which is critical in order to achieve efficient production and to produce competitively priced products; (b) increasing autonomy of BJMC to enable it to operate along commercial lines; (c) restructuring the mills' debt burdens; (d) increasing wages only in line with productivity; and (e) effectively implementing the institution building efforts envisaged under

the project. These efforts would need to be complemented by efforts to reduce instability in the raw jute market. This PCR also suggests a possible approach for restructuring of BJMC mills (para. 8.03). Restructuring of the private sector mills has already begun, with the full or partial closure of about four mills. Ironically market forces are closing down mills in the private sector which may probably be more efficient than many of the public sector mills.

8. Comments from BJMC, contained in Annex 7, are generally consistent with IDA's observations reported in the text. They also elaborate factors that impeded Project implementation, and reveal that BJMC data relating to its performance and use and disbursement of the Credit do not coincide with those reported to or maintained by IDA.

PROJECT COMPLETION REPORT

BANGLADESH

JUTE INDUSTRY REHABILITATION PROJECT (CREDIT 1032-BD)

I. INTRODUCTION

1.01 The Government of Bangladesh (GOB) approached the International Development Association (IDA) to arrange financing for the proposed Jute Industry Rehabilitation Project in March 1979. Preappraisal was carried out in September 1979 followed by an appraisal in December 1979. In June 1980, IDA approved a credit of US\$20 million in support of the project. The project focussed on the improved maintenance and rehabilitation of the machinery of 66 jute mills, institutional and financial strengthening of the Bangladesh Jute Mills Corporation (BJMC), and the establishment of a strategy formulation cell within government. The project was closed on June 1986, and the last disbursement was made in January 1987.

1.02 The US\$20 million credit was made to GOB which: (a) on-lent US\$9.9 million through BJMC for individual mill rehabilitation, and US\$0.5 million to BJMC for consultant services and training; and (b) provided US\$9.6 million of foreign exchange to individual mills for purchase of maintenance spares.

1.03 In the course of project implementation, 35 BJMC mills were denationalized starting from December 1982. These denationalized (BJMA) mills were originally allocated US\$6.07 million. At project closing, only about US\$1.82 million was disbursed, all of which took place when the mills were still under BJMC. The remainder of US\$4.25 million was cancelled because outstanding obligations between the denationalized mills and the development banks-- Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS)--remained unresolved. At project closing, out of the US\$13.93 million allocated for BJMC mills, approximately US\$1.57 million was unutilized and therefore cancelled. Consequently, of the US\$20 million credit, US\$5.82 million was cancelled, US\$12.36 million was disbursed to BJMC, and US\$1.82 million was disbursed to the private mills.

1.04 The project failed to realize its objectives mainly because GOB did not address key issues of excess capacity and autonomy. Operational, financial and economic performance of the jute mills have deteriorated during the period FY80 to FY86. From FY80 to FY86, BJMC and BJMA mills losses amounted to over Tk 3.9 billion which is about 11% of total sales. In FY86 alone, the jute mill sector losses totaled about Tk 2.4 billion, representing roughly 0.5% of GDP at current market prices.

1.05 To arrest the continued deterioration of the jute mills, immediate GOB actions should be directed towards developing a restructuring plan for the whole industry, which will address, among others, issues such as the closure/rehabilitation of inefficient and high cost mills, increasing autonomy of BJMC mills, reducing the mills' debt burden, reducing instability in the raw jute market and ensuring that wage increases remain in line with productivity gains. This plan will also have to take into account the ongoing and projected decline in jute goods prices and develop the least cost approach to lowering the conversion costs in the industry.

II. SECTORAL BACKGROUND

A. The Industrial Sector

2.01 Bangladesh's manufacturing sector accounts for about 12% of GDP and 8% of total employment. The modern manufacturing sector, consisting of public sector and large-scale private units, generates 58% of value added, but employs only 18% of the manufacturing labor force. Small and cottage industries account for most of the employment (82%) in the sector and the remaining 42% of the total value added. The public sector's share has declined continuously since mid-1975 and currently constitutes about 40% of total fixed assets in the modern manufacturing sector, compared to about 90% in 1972.

2.02 Despite the manufacturing sector's relatively small size, it plays a prominent role in the country's external trade. Mostly due to jute products, it currently accounts for almost three-fourths of total merchandise exports. About 30% of value added in modern manufacturing now originates in export activities. Bangladesh has very limited natural resources and depends on imports for most of its raw materials. Given the import intensive nature of industry, manufactured exports, especially non-traditional exports, will have to continue to expand rapidly to meet the growing import requirements, if the sector is to grow rapidly without creating undue pressure on the balance of payments.

2.03 At the time of independence in 1971, the Government of Bangladesh took over all enterprises considered abandoned by their non-Bangladeshi owners. The Government also nationalized all units owned by Bangladeshis in cotton textiles, jute and sugar manufacturing. As a result, public ownership of fixed assets in modern manufacturing increased, from about one-third to almost 90%. The private sector was also excluded from jute export trade, insurance and banking; its role was limited to business activities with fixed assets below Tk 1.5 million.

2.04 The loss of entrepreneurs and managers, physical damage to assets and infrastructure, loss of export markets and the transition to public ownership, all disrupted the sector. By FY75 industrial output had declined to 75% of its FY69 level. Government emphasis on rehabilitation of existing units and higher capacity utilization helped industry rebound, and industrial output increased at an annual average rate of 7% during FY75 to FY81. Nevertheless, the FY69 level of industrial output was regained only in FY79.

2.05 In June 1982, the Government introduced a New Industrial Policy aimed at liberalizing industrial policies, denationalizing selected public enterprises and improving the remaining and promoting the private sector. Following introduction of this new policy, the government denationalized 27 textile mills, constituting 45% of the country's spinning and 57% of its weaving capacity, and 35 jute mills accounting for about 40% of total production capacity. Furthermore, 474 other industrial enterprises and 2 nationalized commercial banks have been divested, and the private sector has been allowed to enter the banking sector. As a result, the number of public industrial corporations was reduced from 11 to 6, and large amounts of debt were converted to equity.

2.06 In the past two years, as a result of the improved policy environment, good exchange rate management, and favorable macroeconomic developments, the industrial sector has grown an average of 9% per annum, while non-traditional exports achieved annual growth rates of 30-40%. Most of the sector's growth has come from labor-intensive industries like garments and light engineering.

2.07 Sustaining the present high rate of industrial growth with heavy emphasis on labor-intensive industries is an important element in the government's policy to meet domestic demand, expand export markets and create employment outside agriculture.

B. Jute Sector

2.08 Overview. Jute is the principal export product of Bangladesh, accounting in fibre (raw jute) and processed (jute goods) form for about US\$470 million in annual export earnings, or about 58% of the country's total export earnings in FY83-FY85. The jute sector, because it is highly labor-intensive, also provides about 10% of all employment in the economy. The sector's overall contribution to GDP is about 7% and of monetized GDP, about 15%. Consequently, the performance of the jute sector is crucial to Bangladesh's economy.

2.09 World market demand conditions are a critical determinant of the performance of the jute sector. About 90% of all jute production is exported; two-thirds in the form of jute goods, and one-third in raw jute. Bangladesh is the largest supplier of jute in world trade; the country accounts for 30% of total world jute production, and 55% of total world exports of jute and jute goods. Jute supply policies in Bangladesh thus, exert an important influence on world supplies, and ultimately on demand since growth in world demand is quite dependent on assured supplies of jute at prices which are competitive to the prices of synthetic substitutes. Over the past 15 years, synthetic substitutes, mainly polypropylene, have provided intense competition to jute in all major end-uses and markets.

2.10 World import demand for jute has been stagnant over the past decade. Average export prices of jute have declined by 15% in real terms from the already low levels in the 1970s. The predominant reason for the stagnant level of world demand was a reduction of jute use in North America by about 50%. In North America, technological advances in bulk-handling, new materials for carpet backing, and other products resulted in a decline in demand. Decline of jute demand in African countries can be attributed to difficulties in the balance of payments and declining agricultural production. In Latin America, import restraints on jute, protection of domestic fibre production, bulk-handling, and the increased use of synthetics contributed to the decline of jute imports. In Western Europe, the demand was stagnant. In centrally planned economies, jute demand increased by only 2% per annum. In other developing countries, jute imports increased by about 6% per annum.

2.11 Raw Jute. Acreage and production of raw jute have declined from over 2.3 million acres and 6.6 million bales in FY66-71 to 1.6 million acres and 5.3 million bales in FY81-86 respectively. The decline was the result of the large fall in relative profitability of jute cultivation vis-a-vis rice. Raw jute prices have fallen steadily in real terms and by the early 1980s, average prices were 50% lower than in the early 1970s. While this large reduction in raw jute prices was a significant factor in keeping jute goods prices competitive with synthetics, it was insufficient to compensate for both the lower sales prices on jute good, and higher production costs in the mills.

2.12 A major cause of the poor performance of the jute sector is the instability of raw jute supplies and prices. Steps need to be taken (para 2.15) to prevent the occurrence of periodic and very costly disruptions in the jute market, as most recently evident when raw jute prices more than doubled in FY85 and subsequently, collapsed in FY86. Raw jute accounts for 50-60% of the production costs of jute goods, and as a result this instability also affects very adversely the viability of the mill sector. See reference on p.2 of Annex 7.

2.13 Mill Sector. Following the nationalization of the jute mills, a holding company, the BJMC, was formed to run the 68 jute mills in the country. The denationalization program in 1982 left BJMC with 33 mills; the remaining 35 mills are in the private sector. Total jute goods production in FY86 was about 460,000 tons of which 60% was produced in BJMC mills while the remaining 40% was produced in the private mills. In terms of the installed capacity, BJMC also accounts for about 60%. In FY86, the mill sector employed some 183,000 employees of which 66% are in BJMC. Export earnings in FY86 was about Tk 8.8 billion or about 1.9% of GDP at current market prices.

2.14 From FY75 to FY79, BJMC's jute mills accumulated losses amounted to about Tk 2.8 billion or 19% of the annual value of sales. Inevitably, GOB financial assistance was called upon in the form of cash subsidies, export subsidies, and equity infusions totaling Tk 1.7 billion. In the period of FY80 to FY86, BJMC and BJMA jute mills continued to make losses that amounted to about 11% of total sales. The total financial losses during this period was over Tk 3.9 billion. About Tk. 2.2 billion of these losses were financed by budgetary subsidy and cash infusions, while the remaining losses were financed through loans. While the jute sector remains by far the most important source of foreign exchange earnings, it has paradoxically become a large financial drain on Bangladesh's economy. See reference on pages 2-3 of Annex 7.

2.15 In FY87, IDA completed a sector report ^{1/} which analyzed in detail the key issues facing the jute sector. As discussed in the report, future prospects of jute exports are not encouraging. Competition from synthetics and weak world import demand are likely to keep prices at depressed levels. Over the next

^{1/} Bangladesh: "Policies and Prospect in the Jute Sector". Report No. 6161-BD, June 23, 1986.

decade, Bangladesh's export are not likely to grow by more than 2% p.a. in volume and 1.4% p.a. in value terms. Even achieving these growth rates would require substantial policy improvements, reduction in the costs of production and the instability of raw jute prices and output. Briefly, the report made the following recommendations:

- (a) Price and supply instability in the raw jute market should be reduced through: improving jute market information, buffer stock operation and strengthening of private storage activity; introducing variable export taxes and subsidies; improving raw jute procurement policies by mills; and stabilizing acreage under jute and improving yields;
- (b) Operational efficiency of the mill sector should be improved through: capacity rationalization, improved labor-productivity and wage-determination process, financial restructuring of the mill sector and increased autonomy of the BJMC mills; and
- (c) Institutional capacity of the government to plan, monitor and implement the jute policy and assist in product and market development should be strengthened.

III. PROJECT DESCRIPTION

A. Origin

3.01 Most of the jute mills were established in the 50s and early 60s. During the liberation period, the mill sector suffered tremendously--loss of management and supervisory staff, neglect of maintenance, work stoppages and war damages. In the years following independence, BJMC's operations deteriorated further. The main bottleneck to improved production and productivity were lack of maintenance, poor production planning and inefficient yarn production facilities which were not only run down, but also not suited to production of lighter yarns whose requirements had increased with the shift to lighter fabrics. In the mid-70's, several foreign aid agencies designed complementary assistance to halt and reverse the deterioration. IDA has been involved in Bangladesh's jute industry since 1975 when it conducted a study that was the basis for the jute action programs of the Fourth and Fifth Imports Program Credits. Under these two and subsequent three program credits, IDA assistance focussed on improving marketing, production planning, preventive maintenance, strengthening of the organization, management and financial aspects of BJMC and export development. In conjunction with IDA, UK's Overseas Development Administration financed consultants for undertaking a mill-by-mill survey to assess the balancing, modernization and replacement needs of BJMC mills.

3.02 A GOB interministerial study group reviewed the consultant's BMR program (para. 3.01) and submitted in June 1979 to IDA a modified proposal aimed at minimizing investment--industry wide balancing (instead of individual mills) through inter-mill machinery transfer and rehabilitation rather than new investment--in view of the marginal financial viability of the industry, the high cost of new machines and low labor cost in Bangladesh. In support of the project proposal submitted by GOB, IDA approved a US\$20 million credit (1032-BD) in June, 1980.

B. Objectives

3.03 The objectives of the project were to: (i) increase the mill sector's production and efficiency through rehabilitation, maintenance and balancing of existing production facilities; and (ii) continue to improve the organization, management, and finances of the jute industry through reorganization, financial restructuring, improved financial management systems, production incentive systems and training programs.

C. Project Components

3.04 To achieve the stated objectives, the US\$20 million credit was targeted for the following areas:

1. Production Systems Improvement Component

- (a) Rehabilitation of yarn winding, spinning and back processing machinery in all the jute mills.
- (b) Introduction of a third shift from the existing two shift operation in the back processing and spinning department of 40 mills.
- (c) Transfer of about 41 spinning/back processing machines from mills with surplus machines to those in need of such machines.
- (d) Preventive maintenance program for the entire production facility in all the mills.

2. Institution Building Component

- (a) Program of training including the establishment of about 9 training centers, one in each zonal offices.
- (b) Organizational strengthening of BJMC and mills.
- (c) Improvement of decision-making and cost control through establishment of MIS, introduction of process accounting system, and improvement of the budgeting system.

- (d) Introduction of production incentive scheme in the back processing department through designing of the scheme and provision of dial scales to measure production.
- (e) Strengthening institutional capacity for analyzing long-term strategic issues through establishment of a Jute Strategy Cell.

3. Financial Restructuring of BJMC Mills

GOB agreed under the Eighth Imports Program Credit to establish for each mill by December 31, 1983, a long-term debt/equity ratio of 60:40 via conversion of debt to equity and cash infusions. This agreement was also included under this project.

3.05 The total project cost was estimated at US\$37.98 million and is presented in Table 3.1 below.

Table 3.1: PROJECT COSTS AND FINANCING

	<u>Foreign</u>	<u>Costs</u>		<u>IDA Financing</u>
		<u>Local</u>	<u>Total</u>	
		<u>(US\$ millions)</u>		
Rehabilitation	8.20	5.00	13.20	9.52
Preventive Maintenance	5.25	15.75	21.00	9.60
Weighing Scales	0.25	0.00	0.25	0.25
Training	0.00	0.13	0.13	0.13
Consultants	0.35	0.05	0.40	0.40
Unallocated	-	-	-	0.10
Subtotal	<u>14.05</u>	<u>20.93</u>	<u>34.98</u>	<u>20.00</u>
Taxes/Duties	0.00	3.00	3.00	0.00
Total	<u>14.05</u>	<u>23.93</u>	<u>37.98</u>	<u>20.00</u>

IV. PROJECT IMPLEMENTATION

A. Project Start-up

4.01 The credit became effective on July 22, 1980. Following credit effectiveness, the project commenced without delays.

B. Change in Project Scope

4.02 Denationalization. In the course of project implementation, a major change occurred in mill sector. Subsequent to the New Industrial Policy, between 1982-1986 GOB denationalized about 35 BJMC mills by transferring up to 51% of the shares to the former Bangladeshi owners. GOB currently retains a maximum of 49% ownership in the denationalized mills.

4.03 After denationalization, all project activities and efforts ceased in the denationalized mills either because of legal problems or lack of interest on the part of the new mill owners. The denationalization also affected the overall project: intermill transfer stopped, BJMC's overall operations were disrupted, and for a few months it and GOB were preoccupied with policy/operational issues arising from denationalization.

4.04 IDA proposed to BJMC and GOB an arrangement whereby the amount originally allocated for the 35 denationalized mills be made available from GOB to the private mills, on exactly the same terms provided in the Credit Agreement, with the BSB and BSRS acting as administrative agents on behalf of GOB. These on-lending arrangements were finalized in December 1984 after about 18 months. As a precondition for the denationalized mills to participate in this proposed arrangement, the mills' outstanding long-term liabilities with BSB and BSRS had to be resolved. The main contentious issue related to the increase in liabilities resulting from massive exchange rate devaluations after 1971. Unfortunately, the mills' overdue obligations with BSB and BSRS remained unresolved at project closing, and only recently has agreement been reached among GOB, BSB/BSRS and the mills on settlement of the overdue accounts. Consequently, out of the allocated US\$6.07 million, only about US\$1.82 million was disbursed which took place when the mills were still under BJMC; no disbursements took place for the private mills after denationalization. The undisbursed US\$4.25 million (21.2% of the credit) allocated for the denationalized mills was cancelled.

C. Implementation of Project Components

1. Production Systems Improvement Component

4.05 With a view to improving the productivity and efficiency of production, the project included efforts in two directions: improving yarn production system through rehabilitation of back processing and spinning machinery, intermill transfer of such machinery and the introduction of a third shift in the back processing department, and improving the overall production system through enhancement of the preventive maintenance program.

4.06 Rehabilitation of Yarn Production Machinery. BJMC's head office exercised overall control and supervised co-ordination of the rehabilitation works through the Zonal Offices. The project included rehabilitation of about 3,700 machines, of which about 2,700 1/ have been rehabilitated by the time the project closed. Spares have been received/ordered for about half of the remaining machines which would be rehabilitated over the next 12-18 months; the remaining machines would not be rehabilitated. Delays occurred in implementation of this component because of:

- (a) lack of coordination between ordering of spares by the mills and its procurement by BJMC. In many cases, not only specifications of spares were incorrect, but unwanted spares were procured;
- (b) lack of orderly scheduling and a clear rehabilitation plan at the mill level;
- (c) delays in disbursement of IDA funds as there were about 2,000 withdrawal applications;
- (d) delays in delivery by suppliers; and
- (e) reluctance on part of mill management to stop operation of machines targeted for rehabilitation.

4.07 Intermill Transfer of Machines. At appraisal, the balancing aspect of the project called for the intermill transfer of an estimated 41 spinning/back processing machines from mills with surplus machines to those with deficiencies. As a result of denationalization the intermill transfer of machinery between BJMC mills and the denationalized mills ceased. Furthermore, changes in product-mix, subsequent to appraisal, made the original plan redundant. Consequently, BJMC dropped the implementation of the intermill transfer of machinery after receiving concurrence from IDA in June 1984.

4.08 Introduction of Third Shift. The project called for an introduction of third shift working on millside (spinning and back processing) in most mills to balance the weaving production. The original plan was to introduce a third shift after the intermill transfer of machinery has taken place. Although the intermill transfer was not fully implemented, most mills are presently operating three shifts.

1/ While the project was intended to cover mainly rehabilitation of yarn production machinery, at initial stage of the project a few mills also rehabilitated some weaving machines.

4.09 Preventive Maintenance. Under the Import Program Credits, BJMC set up Maintenance Task Forces and the credits provided foreign exchange for imported spares for preventive maintenance. To continue this support at an enhanced level, the project included US\$9.6 million to finance about half of the estimated (\$21 million) imported spares and equipment needed over a three year period for regular and preventive maintenance. The other half was to be financed from bilateral sources. BJMC had to use its internal resources or ADP funds for buying the foreign exchange provided under the project. In recent years BJMC has been spending about US\$25-30 million annually on repairs and maintenance as indicated in its income statement; accurate estimates are not available on the level of preventive maintenance--total or the foreign exchange component. Total withdrawals made by BJMC under this category amounted to about US\$4.6 million and the remaining US\$4.6 million was either cancelled or reallocated to other categories. Annex 7, p.6 cites disbursements of US\$4.9 million.

2. Institutional Building Component

4.10 Establishment of Training Centers. Nine training centers were to be established under the project to provide on-the-job training to management, supervisors, and workers. Out of the envisaged nine centers, only three centers were to be newly constructed with the other six located in existing facilities. Actual cost of civil works for these centers was about US\$480,000 as compared to the appraisal estimate of US\$130,000; the overrun was financed through reallocation of funds from another category. All nine centers are operational, although the following problems persist: (a) lack of sufficient machinery for trainee use because the intermill transfer, as part of which some machines were to be allocated to the centers, was not fully implemented; and (b) the discontinuation of budgetary funds for running these centers. The mills are bearing full costs of these centers.

4.11 Reorganization of BJMC and Mills. Under the project, BJMC was to employ a consultant by September 30, 1980 to review BJMC's organizational/operational processes and make recommendations on measures which would enable BJMC to operate as a commercial entity. While the consultant selection was finalized by end-1980, the study did not commence until March 1985, about 5 years later. Firstly, delays occurred in finalizing the draft agreements. Then the denationalization process took place, and government committees were set-up for reorganization of public sector corporations. New government policies/directives were established in line with recommendations of these committees. The TORs were redrafted to take these into account, reapproved by GOB/IDA, and agreements renegotiated. The consultants submitted their report to BJMC in August 1985.

4.12 The consultants recommended that BJMC be reorganized and individual jute mills be operated on fully commercial basis as independent profit centers. BJMC's Marketing Division should be established as an international marketing agency to secure orders for both BJMC and private mills. Minimum export prices for jute goods should be abolished. The newly created Bangladesh Jute Corporation should be allowed to purchase raw jute at prevailing market prices

and resell them to jute mills. Autonomy in hiring and discharging employees be granted to mill managers or a welfare subsidy be provided to the mills for the imposed overmanning. BJMC's Board should be expanded to include experienced business executives, professional personnel and Ministerial representatives so that the Board representation is broadened and deepened. Several positions were proposed to be eliminated. Finally, the study recommended computerization of inventory control, proper financial planning and budgetary control, and strengthening the internal auditing function.

4.13 Most of the consultant's recommendations have not been implemented by GOB/BJMC and the organizational structure and operational processes at project closing resemble those at appraisal except for some minor changes.

4.14 Improving Management and Financial Accounting System. In order to assist BJMC with improving its management systems, funds were provided in the project for BJMC to engage consultants in the areas of financial accounting, MIS and process accounting.

4.15 By December 31, 1980, BJMC was to engage an accounting firm to assist in improving its financial accounting and to consolidate accounts of BJMC and the jute mills. Consultant selection was completed by early 1981, but finalization was delayed because of lack of agreement between BJMC and the consultants on proposed fees of US\$750,000 which were substantially higher than the estimated budget (\$440,000). In end-1982, BJMC recommended that the component be dropped citing efforts it had undertaken since appraisal to strengthen its accounting procedures and cost and budgeting controls, and the changed circumstances particularly with regards to the fewer number of mills under its control following the denationalization. Because of BJMC's reluctance and the above reasons, IDA concurred with BJMC.

4.16 As part of the Sixth Import Credit, a Management Information System (MIS), was developed to reduce the voluminous data and reports, and to standardize the information flow from the mills to BJMC and other offices. Under the project, it was agreed that BJMC would engage a consultant by September 20, 1980 to extend the existing MIS system. For the reasons cited in para 4.15 above, the MIS consultant was also not engaged. At project closing, the MIS is capable of supplying daily, weekly, fortnightly and monthly reports. Computerization of other important information on raw jute stock, procurement and others have been completed. Unfortunately, the input data is often not thoroughly checked and consequently the quality and consistency of the MIS reports are not very satisfactory.

4.17 Under the Fifth Imports Program Credit, a Process Accounting System (PAS) system was developed with a view to enabling BJMC to estimate standard/actual costs at various stages of processing. The existing accounting system did not provide this and as a result was not an adequate tool for cost-control. Under the project, BJMC agreed to implement the PAS in all mills by July 1981. A consultancy firm introduced the PAS on a trial basis in two mills in 1980. Following the trial runs, BJMC senior management, especially financial

staff, had serious reservations on the utility of a comprehensive cost accounting system. It was felt that: (i) there was no practical means of quantifying the gains in relation to the costs of implementing the PAS; (ii) preparation and submission of monthly accounts as recommended by the consultants would take more time than current reporting system; and (iii) under the recommended system, the profitability position of the mills would be available in about one and half months while the present system was providing reports to the mills in about two weeks. BJMC also doubted the capability of the proposed accounting system to provide element-wise cost structure at various stages of processing. As a result, the PAS remained unimplemented at project closing.

4.18 Production Incentive Scheme. The purpose of the production incentive scheme was to improve the productivity of the spinners and workers in the back processing departments. While weavers, which account for about 60% of the workers, are paid on piece rate basis, the spinners are paid on flat rate. Consequently there is no incentive for spinners to improve productivity or attendance. The project included design of a suitable system and provision of weigh scales to measure spinning production. BJMC was to employ a consultant to review and prepare a production incentive scheme by September 30, 1980, and to adopt such a scheme by January 1, 1982. The timetable was not met; consultants were engaged in December 1981, and the report was submitted to BJMC in December 1982.

4.19 After reviewing the report, BJMC concluded that the consultant's report was not workable because it was too elaborate, complex and impractical. Consequently, BJMC requested that the consultant proposals be implemented on a trial basis at one of the jute mills. There was substantial delay in implementing the trial run because the consultants felt that it was not part of the contract agreement even though they initially agreed to BJMC's request. After prolonged persuasion, the trial establishment took place in June 1985. A report was submitted on June 1986 indicating that it was practical to implement the proposed production incentive scheme. BJMC set up a committee to study the consultant's report; neither BJMC nor mill management were supportive of the consultants' claims, and most felt that the formulation of the incentive norms was difficult to comprehend and implement. There was no attempt by BJMC at the inception of the study to provide input into the study. BJMC believes that it would be in a better position to design the production incentive scheme. However, it has not made any serious efforts to design such a system. Thus, at project closing, none of the BJMC or BJMA mills have a production incentive scheme for the workers in the back processing department.

4.20 The project called for 42 BJMC mills to acquire weighing scales. The remainder 24 mills already had their weighing scales. A total of 79 scales were procured under the project. Neither BJMC nor private mills are using these scales because the envisaged production incentive scheme was not put in place.

4.21 Jute Strategy Cell. Under the project, GOB was to establish a Jute Strategy Cell by December 1980. The purpose of the strategy cell was to assist GOB in formulating medium and long-term strategies for raw jute and jute goods industry.

4.22 Major problems were encountered during establishment of the cell: (a) Staffing of the cell was delayed because of the difficulty of recruiting local candidates qualified for the Head of the Cell; (b) there was strong resistance by lower level staff in the Ministry of Jute to bringing in an outsider as head of the cell; (c) delays took place due to the lack of budget. These problems resulted in delaying the establishment of the cell by about 4 years. After a series of discussions with GOB and IDA's threat of suspending disbursement, the cell was finally established in December 1984. A local consultant was selected to conduct studies on jute policies and marketing strategies. Because of the tight budgetary situation, IDA agreed in June 1984 to provide from a Technical Assistance Credit, Tk 1.5 million for consultancy and training. Further delays were encountered prior to the functioning of the cell which became finally operative in early 1985. In the last 2 years since the cell has been operational, it has had three chiefs.

4.23 At project closing, out of the allocated Tk 1.5 million available for consultancy, only Tk 0.2 million have been used. The consultant has submitted four reports in the following areas: (a) seasonal jute pricing behavior; (b) price elasticities of export demand for raw jute and jute goods; (c) demand for jute fibre stools; and (d) recent world jute market. Because of lack of adequate cooperation by the Ministry Staff, the consultant has decided not to renew the contract. Funds were also provided for overseas study tours, but so far no tours have taken place.

3. Financial Restructuring of BJMC Mills

4.24 The capital restructuring was intended to return the mills to a more sustainable long-term debt to equity ratio of 60/40 (1.5). The estimated and actual consolidated capital restructuring of BJMC and BJMA mills and GOB equity infusions (Taka million) are presented in Table 4.1 below.

Table 4.1: FINANCIAL RESTRUCTURING

FY	Estimated		Actual /b			
	P (L) /a	GOB Infus.	BJMC P (L) /a	BJMA	BJMC GOB Infus.	D/E
80	300	480	1062	-	500	3.2
81	120	420	338	-	400	2.6
82	120	360	(654)	-	314	4.6
83	130	350	247	-	255	2.2
84	120	300	(296)	6	250	2.1
85	-	-	(1,462)	(854)	250	-ve E
86	-	-	(1,582)	(771)	250	-ve E
Total		1,910	(2,347)	(1,619)	2,219	

/a Net profit (loss)

/b Annex 7, p.9, shows minor differences in net profit (loss) and major discrepancies in GOB infusions of capital.

From FY 80 to FY86, GOB cash infusion amounted to Tk 2.2 billion, of which Tk 1.5 billion went to the current 39 BJMC mills and Tk 0.7 billion went to BJMA mills when they were under BJMC. Despite GOB cash infusion of Tk 2.2 billion, representing over 16% more than the estimated figure, huge financial losses incurred by the mills particularly in FY85 and FY86, prevented the achievement of the 60/40 ratio (Annex 5). Currently, the equity of BJMC mills is negative. Because of the continuous losses, additional cash infusion in the order of Tk 3.7 billion would be required to maintain a 60/40 debt-equity ratio for BJMC mills alone.

4.25 Audits. Although there were some delays, the backlog of audits (FY76 to FY80) of individual mills were completed in time; subsequent annual audits were also generally completed on time. Without exception, the auditors gave unqualified opinions as to the fairness of the financial statements and compliance with the Companies Act of 1917. However, in most cases the reports also contained reservations regarding companies procedures, and quality of internal control and record keeping. The observations were carried forward each year as remedial actions were not taken. Consequently, it appears that the audits have not been used by the mill management/BJMC for maintaining financial and budgeting discipline.

D. Procurement and Disbursement

4.26 Procurement. Procurement of goods and services under the project was delayed considerably because of the lack of coordination between BJMC and the mill managers, the difficulty of obtaining funds for imported items, scheduling problems and the disruption caused by the denationalization of the mills. Initially, procurement was undertaken centrally from BJMC Head Office on behalf of all jute mills. After the denationalization of jute mills, procurement was transferred to the individual mills. Aside from the delay caused by the denationalization program, BJMC had to explain to the individual mill managers IDA's procurement procedures compounding the delay in procurement. At least 6 months were lost when the tenders of the individual jute mills that were floated (November 1983 to February 1984) had to be retendered when IDA informed BJMC in March 1984 that some of the tender specifications were not in conformity to IDA's standard guidelines. A persistent procurement problem was the import bans on a large majority of spare parts used in the jute industry. Every time BJMC wanted to award contract to a foreign bidder for a part on the banned list, it had to get a waiver from the government. This was a very time consuming process involving a number of ministries. After numerous discussions between IDA and the government, a blanket waiver was finally obtained in the final days of the project. The nature of the project--procurement of thousands of different types of spare parts over a number of years--resulted in procurement being split into thousands of small lots. Rough estimate suggests that average order size was less than US\$5,000. This slowed up considerably the disbursement (para 4.28).

4.27 Of the US\$20 million credit proceeds, US\$8.88 million was used to purchase spares and materials, US\$130,000 for the purchase of weighing scales, \$4.61 million was spent on preventive maintenance, US\$480,000 for civil works, US\$80,000 for consultancy services, and US\$5.82 million was cancelled (Table 4.2).

Table 4.2: CREDIT UTILIZATION/a

	Appraisal Estimate	Reallocated	Actual (\$ million)	Cancelled
1. Equipment, spares, and materials:				
(a) Rehabilitation	9.52	9.52	8.88	0.64
(b) Weighing Scales	0.25	0.25	0.13	0.12
(c) Preventive Maintenance	9.60	8.71	4.61	4.10
2. Civil Works (Training Centers)	0.13	0.80	0.48	0.32
3. Consultants	0.40	0.62	0.08	0.54
4. Unallocated	0.10	0.10	0.00	0.10
TOTAL	20.00	20.00	14.18	5.82

4.28 Disbursement. The major problem facing the disbursements of this credit was the long time needed for processing of numerous small withdrawal applications (para. 4.26). Comparisons between estimated and actual cumulative disbursements are given in Table 4.3 below:

Table 4.3: DISBURSEMENT PERFORMANCE (CUMULATIVE)

	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>
	(US\$ million)						
Cumulative:							
Appraisal Est.	6.0	14.0	20.0				
Actual /b	0.2	3.9	5.8	7.5	8.8	13.1	14.2

/a Annex 7, p.11, provides different compositions of the Reallocated, Actual and Cancelled categories.

/b Annex 7, p.11, indicates a slightly different pattern.

Because of lack of counterpart funds and foreign exchange, BJMC used extensively IDA's QAR (Qualified Agreement to Reimburse) procedures for procuring imported and domestic spares. Up until the establishment of a Special Account in Foreign Exchange (SAFE) in December 1985, IDA processed about 2,000 QARs. To enable faster disbursement and reduce IDA's work load, agreement was reached between IDA and GOB in April 1985 to establish a SAFE account. Since this was the first time a procedure of this nature was introduced in Bangladesh, it took over a year for the account to become operational and for all GOB agencies (Bangladesh Bank, Finance, Commercial Banks and BJMC) to agree on the procedures. During this one year period, IDA regrettably decided not to process any QAR application below US\$10,000, and in effect all disbursements came to a standstill. By the time the SAFE was fully operational, the project closing was only a few months away. Even after the SAFE became operational, Bangladesh Bank's conservative approach--not allowing BJMC to open L/C's over and above the funds available in the SAFE, even through these L/C's would be covered by undisbursed credit funds--slowed down the procurement. Moreover, since SAFE funds could be used for financing of local expenditures, GOB cut-off ADP allocations. Given BJMC's tight liquidity problems, it could not allocate local funds from its own resources and therefore further delays were introduced. See Annex 7, p. 16.

4.29 Other problems causing delay in disbursements include the dispute between the denationalized mills and BSB/BSRS, which ended in the cancellation of US\$4.25 million of the credit.

E. Project Costs

4.30 A comparison between estimated project costs and actual expenditures are shown in Table 4.4 below:

Table 4.4: PROJECT COSTS /a

	Appraisal			Actual		
	Foreign	Local	Total	Foreign	Local	Total
<u>Spares and Equipment</u>						
Rehabilitation Spares:						
BJMC	8.20	5.00	13.20	7.94	4.36 /b	2.32
BJMA				0.94	1.05 /b	1.99
Maintenance:						
BJMC	5.25	15.75	21.0	3.80	-	3.80
BJMA				0.81	-	0.81
Weighing Scales:						
BJMC	0.25	0.00	0.25	0.07	-	0.07
BJMA				0.06	-	0.06
<u>Institution Building</u>						
Training						
BJMC	0.00	0.13	0.13	0.47	-	0.47
BJMA				0.01	-	0.01
Consultancy	0.35	0.05	0.40	0.08	-	0.08
Taxes/Duties	0.00	3.00	3.00	0.00	3.00	3.00
TOTAL	14.05	23.93	37.98	14.18	8.43	22.61
	=====	=====	=====	=====	=====	=====

/a Annex 7, p. 12, provides a different composition and amount of Credit utilization.

/b From ADP.

V. PROJECT IMPACT

A. Operational Performance

5.01 Overall the performance of the mill sector has been dismal - the sector is worse off now than it was at the time of appraisal. The deterioration in performance is a cumulative impact of the following: excess employment and excess capacity, wage increases completely out of line with that justifiable on commercial grounds, poor management, instability of raw jute supply and prices, weak export demand and prices, BJMC's lack of operational autonomy, and the very poor financial structure resulting from continuous losses. It is impossible to relate the performance to either the effects of each of the above individual factors or to the interventions by the project. While efficiency of individual machines has improved, the impact of this has been negligible on the overall performance. Performance in each of the different areas is discussed below.

Given the lack of adequate detailed information on the private sector mills, most of the analysis below is based on the public sector, which in any case was the major beneficiary of the project.

5.02 Productivity, Efficiency and Wastage. The Tables 5.1 and 5.2 below compares current spinning and weaving productivity, efficiency and wastage (2 year averages) to the pre-project era, and to appraisal estimates. It is based on data from 10 BJMC mills, which account for about 70% of BJMC production. As the tables indicate, there is hardly any noticeable change in productivity, efficiency and wastage reduction after implementation of the project. In almost all cases, the productivity and efficiency have not met the appraisal estimates. Paradoxically, even though most of the project investments were directed towards rehabilitating the spinning machinery, the spinning performance in a number of cases has declined possibly reflecting effect of other factors, e.g., power breakdowns, poor management and labor skills, etc.

Table 5.1: PRODUCTIVITY PERFORMANCE

	<u>Actual</u> <u>FY79-80</u>		<u>Actual</u> <u>FY85-86</u>		<u>Appraisal</u> <u>Targets</u>	
	<u>Prod. /a</u>	<u>Eff. /b</u>	<u>Prod.</u>	<u>Eff.</u>	<u>Prod.</u>	<u>Eff.</u>
<u>Spinning</u>						
Hessian:						
Warp	8.0	79	7.7	76	8.2	82
Weft	8.2	67	8.4	69	8.6	70
Sacking:						
Warp	8.9	69	9.2	72	9.0	70
Weft	22.3	63	19.9	56	25.0	70
CBC: /c						
Warp	8.2	-	8.9	-	8.3	-
Weft	7.7	-	8.6	-	7.7	-
<u>Weaving</u>						
Hessian	6.1	47	6.4	50	8.0	62
Sacking	17.0	58	17.4	59	21.7	74
CBC	12.2	60	12.8	62	15.0	73

/a Productivity: Spinning in oz/spindle-hr, Weaving in lbs/budgeted loom-hr.

/b Efficiency: Spinning (productivity as % machine rated productivity), Weaving (productivity as % machine rated productivity).

/c CBC spinning efficiency data is not available.

Table 5.2: WASTAGE % (NARROW LOONS)

	<u>FY79-80</u>	<u>FY84-85</u>	<u>Appraisal</u> <u>Target</u>
Overall	7.2	7.0	6.5

5.03 For the period 1984-86, weaving performance of public sector mills is compared with those of private sector mills in Table 5.3 below.

Table 5.3: PUBLIC VS PRIVATE MILL COMPARISON

	<u>Productivity (lbs/loom-hr)</u>		<u>Overall Wastage</u>
	<u>Hessian</u>	<u>Sacking</u>	
BJMC Mills	6.4	17.0	6.9
BJMA Mills	6.8	18.2	7.0

In general, it appears that BJMA mills are performing somewhat better than BJMC mill.

5.04 Overall Production. Production in the FY85-86 period was about 13% lower than the FY79-80 levels.

5.05 Employee Productivity. At appraisal, BJMC was overmanned; it still continues to be overmanned. In India, the number of workers per loom average 2.7, while in Bangladesh it is 3.3. Despite the fact that production has declined over the last few years, employment in BJMC has increased. The Table 5.4 below indicates output per worker over this period. During FY84-86, BJMC's and BJMA's productivity per worker have declined when compared to that in of FY79-80. Overall, BJMA has outperformed BJMC's mills.

Table 5.4: EMPLOYEE PRODUCTIVITY

	<u>BJMC</u>	<u>BJMC</u>	<u>BJMA</u>
	<u>FY80-81</u>	<u>FY84-86</u>	<u>FY84-86</u>
Production (tons) per worker	3.7	3.0	3.6

B. Overall Profitability

5.06 Since FY72, the jute mill sector made profits in only 3 out of 14 years. The profitability of the mills are affected by a complex array of factors: export prices, raw jute prices, labor costs, financial charges, production losses due to labor disputes/power failures, etc. The key factors are raw jute and labor costs which accounts for about 50-60% and 25-30% of the costs respectively. In the three years that the jute mills were profitable (FY80-81

and FY83), both the world jute prices were favorable and raw jute costs low. Between FY80-86, the mill sector's cumulative losses were about Tk 3.9 billion.

5.07 The table below (Table 5.5) provides an index comparison of unit sales and cost indices (FY76 - 79 = 100) over the period FY76-79 and FY83-86; three year averages have been taken to smooth out year to year changes.

Table 5.5: INDEX COMPARISON OF UNIT (\$/ton) SALES/COST
(Index: FY76-79 = 100)

	FY76-79			FY84-86		
	<u>Index</u>	<u>%</u> /a		<u>Index</u>	<u>%</u> /a	
			-----BJMC-----			-----BJMA-----
<u>Sales Price</u>	100	<u>100</u>	146	<u>100</u>	136	<u>100</u>
<u>Cost of Sales /b</u>	100	<u>112</u>	150	<u>116</u>	137	<u>113</u>
Raw Jute	100	63	125	54	122	57
Wages/Salaries	100	29	172	34	137	29
Others	100	20	192	27	176	27
<u>Estimated Losses</u>		(12)		(16)		(13)

/a Each item as % of unit sales price.

/b Production cost is used as proxy for cost of sales.

5.08 The table highlights the following:

- (a) Overall, cost of sales have risen faster than unit sales price, despite the fact that jute price increases have been less than that of sales price. The much higher increases in wages and other costs more than offset the gains from lower rise in jute prices. Estimated losses (sales price minus cost of sales) increased from about 12% of sales in FY76-79 to 16% (BJMC) and 13% (BJMA) in FY1984-86.
- (b) BJMA has outperformed BJMC, particularly in keeping wage costs in control. BJMC wages and salaries increased by about 72% compared to 37% in the case of BJMA. This was probably achieved by the private mills through reduction in labor rather than wages over which they have less control.

- (c) Other costs have also increased disproportionately. A large part of the increase is due to higher power costs (due to higher tariffs and more frequent power breakdown) and higher interest costs (because of higher interest rates and continuous increases in liabilities resulting from financing of losses by borrowings).

5.09 Ex-Post Rate of Return. Ex-post financial and economic internal rates of return have not been computed because: (i) it is impossible to separate the impact of BMR from the positive (adverse) impact of the other contributing factors which affect the mills' performances; and (ii) since there is no reliable productivity/production data on rehabilitated and unrehabilitated machines, it is also not possible to undertake cost benefit analysis of the rehabilitation investments at the machine level.

C. Institution Building

5.10 The project components designed to strengthen the institutional aspects of the mills sector such as the reorganization of BJMC/mills, MIS, Jute Strategy Cell, financial accounting, budgeting, and process accounting have not achieved their objectives. The MIS implemented under this credit is operational, but the data it receives is unchecked and often unreliable. The audit backlog was cleared up but audit reservations were carried forward year after year without remedial actions, consequently, defeating the ultimate purpose of the audits. The Jute Strategy Cell is in operation but its contribution and impact have been marginal. Doubts have been raised over the appropriateness of having the cell within line ministries because of difficulty of attracting qualified staff and different nature of work of line ministries. The training center is perhaps the more successful component of this credit. Despite its share of problems, since FY85 it has trained some 990 officers and 2,110 staff/workers in the mill sector.

VI. IDA'S ROLE

6.01 Given the critical importance of the jute sector in the economy, IDA has been actively supporting efforts to improve its performance. Starting from the mid-1970s, three Import Program Credits provided urgently needed foreign exchange for mill rehabilitation and maintenance, and included institution building efforts. In bringing the sector out of the precarious condition it was in after liberation, IDA played a crucial role. Industry's performance improved quite substantially e.g. annual average production in the late 1970s was 15% higher than the early 1970s.

6.02 In the decade of the 80s, IDA continued its efforts, mainly through this project, and the preparation of the jute sector report; in addition substantial attention was given to the sector in the country economic reports. While the thrust of IDA's attention was urgently needed rehabilitation and repairs in the decade of the 70s, in the 80s the focus shifted to strategic and long-term issues and the more difficult areas of policy and institutional reforms. IDA's

key contribution was highlighting, and making recommendations on issues critical to long-term survival: improving competitiveness and efficiency of mill sector through upgrading of BJMC and giving it more autonomy, privatization, reducing excess employment, capacity restructuring, human resource development; reducing instability of the raw jute supply and price; establishing capacity within the government to undertake policy studies and analysis on key issues. While IDA's contributions have been successful in raising the awareness of policy makers on these issues, success in terms of actions has been limited.

VII. CONCLUSIONS AND LESSONS LEARNED

7.01 In summary, the project neither met nor came close to meeting its objectives. The impact of the project has been disappointing, and it appears to have done nothing more than tinkering on the margin. The project focussed too much on repairing machinery and too little on the broader issue that the industry's ability to compete was highly impaired because there was overmanning, mills had inadequate autonomy and there was excess capacity. Important lessons have been learned from this experience of failure, which are discussed below.

7.02 Improving Productivity in a Declining Industry. The project took a 'shot gun' and extensive approach - 3,700 machines over 66 mills - to improving industry performance. While this approach maybe suitable for a growth industry, it is certainly not appropriate for a declining industry unless issues of capacity rationalization and exiting of inefficient firms are tackled first. Not only is there significant excess capacity (30-40%), but also a few mills (accounting for about 30% of the BJMC capacity) are extremely inefficient and have abnormally high conversion costs. A more cost-effective and beneficial strategy would be to prepare a master restructuring plan that will enable the sector to produce jute goods at the lowest possible cost. This master plan should develop the least cost production plan given the existing structure of industry which will include, among others, closure of a few high cost mills, rehabilitation of other mills, shifting the production to low cost mills and/or changing the production mix among different mills. The final decision will depend on the costs involved in alternative options. Without such a clear and well defined restructuring plan, marginal attempts to improve the technical efficiency of individual machines will not improve the competitive position of the jute industry. The high costs--lost exports, large budgetary subsidies--of suboptimal operations are undermining the country's growth.

7.03 On a broader level, the failure highlights the importance of efficient exit policies to maintaining the competitive position of industries. In case of the jute mill sector, inefficient firms were artificially propped up by continual financial support from the budget and the financial institutions and also exit was made more difficult by rigidities in the organized labor markets. A few inefficient mills are adversely affecting the future economic growth of the nation, not only by undermining the competitiveness of the jute mill sector but also by setting a bad precedent for the rest of the industrial sector which also may seek the same kind of artificial support to avoid adjustment. The longer

closure and exiting of uneconomic mills is avoided, the more costly - in financial, economic and social terms--it will become. The sizeable action required now is the result of avoiding a series of marginal actions and adjustments over the last 10-15 years.

7.04 Improving Performance of Public Enterprises. Lack of autonomy is a big handicap in operating profitably, particularly in a product market where profit margins are very thin and tight control on costs is necessary for survival. Key cost factors - wages, employment, raw jute prices, and ability to allocate sales to lowest cost mills - were totally out of control of BJMC and mill managers. Under these circumstances, improvements in machines are unlikely to translate into overall improvements. A very important lesson learned from this project (and IDA's two textile projects which also focussed on the public sector firms) is that machinery upgrading and technical restructuring of public sector firms is not likely to be successful unless real breakthrough is made in the areas of autonomy and management accountability. In retrospect the project did not give adequate attention to reforms in the environmental setting of BJMC.

7.05 Undertaking Policy Studies in a Bureaucratic Setting. The project included a laudable effort at building up a policy analysis capacity within the government - the results are dismal. The reasons are many but the chief one appears to be that bureaucratic environment and culture is incompatible with research work. Research is not the main function of a typical line ministry and therefore government staff, particularly the good ones, do not consider it in their career interest to work in research units. Secondly, the government salaries are inadequate to attract specialists. Thirdly, the working environment and culture of a typical line ministry is dramatically different from a research setting. A more appropriate model for developing a policy studies cell needs to be examined.

7.06 It is particularly disconcerting that so few resources are spent on policy analysis or strategic research on jute, despite the fact that it is one of the most important sector in the economy. There is need to establish a Jute Policy Research Institute which works full time on strategic and policy issues and is adequately funded to attract high quality professionals (economists, business graduates, financial analysts, manufacturing specialists, agricultural specialists, etc.).

7.07 Institution-building and Appropriateness of Covenants. The project included various institution-building efforts and related covenants. The experience has shown that unless there is strong commitment to change at the government and institutional level, interventions in this direction are bound to fail. Either at the government level or at BJMC there was always a reason for inaction. An indication of the lack of concern for institution building is the excessive changes in BJMC management--9 chairmen over 15 years. It has now become clear that not only government but also BJMC were apathetic to the deteriorating conditions, and institutional reforms were not given much importance. Under these circumstances unless there is strong evidence of commitment to change, projects should include significant changes prior to

implementation rather than studies and agreements on changes at some future date.

7.08 Other Lessons. In addition to the above broader lesson, the following specific issues have been highlighted:

- (a) The SAFE account was introduced towards the latter stage of the project. The timing and way it was handled adversely affected implementation. Just when the project staff became fully conversant with IDA procedures, the procedures were changed. IDA assumed that since SAFE procedure was so attractive, its implementation would be swift. Consequently, IDA discontinued use of old procedures not realizing that adapting government's internal financial rules and procedures to SAFE procedures was going to be time consuming. As a result, for almost one year, disbursements were held up. Change in procedures need to be carefully thought through and adequate time needs to be given for its implementation.
- (b) A project of this nature is very difficult to manage, supervise, monitor and evaluate, unless it includes an effective and reliable system for detailed monitoring. Under the project while BJMC and the mills established a monitoring system and gathered a fairly large amount of information on the various aspects of the project, the reliability of this information is weak. IDA disbursement records were not maintained on a mill-by-mill basis, and as a result, no cross checking can be done between IDA and BJMC records of expenditures at the mill level.
- (c) The assessment of needed spares was conducted over a three year period, 1976 to 1979, and there was no updating of these requirements during project implementation to take into account changes in requirements resulting from change in product mix, updated condition of machinery, etc.

VIII. RESTRUCTURING OF THE JUTE MILL SECTOR

8.01 The future of the jute sector will significantly influence the rate of economic growth that Bangladesh can afford in the coming decade. While remaining by far the most important source of foreign exchange earnings accounting for half of all exports, it has paradoxically become a large financial drain on the economy; losses of the jute mills totaled Tk 2.5 billion in FY86, equivalent to 0.5% GDP. There are two sets of issues that must be resolved if the sector is to contribute to Bangladesh's development. First, how can the structural instability in world and domestic markets be ameliorated? Second, how can the longer term competitiveness of the sector be improved so that Bangladesh can capitalize on its low costs and good quality jute in world markets? While

progress will require significant policy changes and a major reorientation of institutions to improve their effectiveness, it would also entail substantial social costs and sizable financial investments over an extended period.

8.02 In stabilizing the markets, immediate priority should be given to the collection, monitoring and dissemination of adequate information on the jute market conditions. Direct intervention by the government is also required in the form of tax/subsidy policies and public buffer stock operations. The improvement of raw jute marketing, improved storage facilities and sizable financial resources would be needed. In addition, strategic and policy research needs to be substantially strengthened and enhanced. These issues are discussed in greater length in IDA's Jute sector report (para. 2.15).

8.03 Current jute goods rated production capacity (up to 1 million tons per annum) is far in excess of demand in the short-term (525,000 tons), and even in the long term (700,000 tons). Preliminary analysis of costs among different mills under BJMC indicates that there is a difference of almost 35% in total costs between high and low cost mills. In terms of labor costs alone the difference is more than 30%. Furthermore, two of the highest cost mills control some 25% of BJMC jute goods production. The conversion costs of these two mills are higher by 40% (BJMC) and 53% (BJMA) of the lowest cost BJMC/BJMA mills. Government will have to develop a master restructuring plan that will address the following issues:

- (a) First the real determinants of differences in conversion cost (especially labor cost) among different plants have to be established. In this area, it is important to establish the relative contribution of overmanning, type of machinery and capacity utilization on cost differences;
- (b) On the basis of identified determinants of cost differences, a least cost program of action prepared to reduce the conversion costs on the basis of projected demand for jute goods. The options such as mill closures, elimination of excess labor through attrition and/or termination grants, physical rehabilitation, and changes in the output mix should be evaluated and their costs and benefits should be estimated.

8.04 In addition to the physical restructuring program, rationalizing the sector would also require further injection of equity and debt restructuring. Also, GOB policies (autonomy of public mills, wage determination, etc.) that inhibit the performance of the mills need to be amended to enable the mill sector to be competitive in the world markets. Thus, a revitalization package would have to incorporate GOB policy reforms, physical and financial restructuring.

8.05 The denationalization of the jute mill sector has produced two significant outcomes: (a) the performance of private mills' appears somewhat better than mills under BJMC, and (b) market forces have begun the restructuring

of private sector mills with the full and partial closure of four mills. The shutdown was a result of financial difficulties. Some 4% of industry capacity and about 5% of employment in the mill sector has been affected. Given the huge liabilities of all the BJMA mills, more mills may close. Ironically, the market forces are closing down mills in the private sector that are probably more efficient than those in the public sector. Therefore, it is crucial that the restructuring should be well designed so that the economy ends up with the most efficient production structure.

ESTIMATED AND ACTUAL CUMULATIVE DISBURSEMENTS
(US\$ Million)

<u>IDA FY</u>	<u>Quarter</u>	<u>Appraisal</u>	<u>Actual</u>	<u>Cancelled</u>
81	1	1.0	0.00	
	2	2.0	0.00	
	3	4.0	0.00	
	4	6.0	0.16	
82	1	8.0	0.39	
	2	10.0	1.41	
	3	12.0	3.31	
	4	14.0	3.93	
83	1	15.5	4.40	
	2	17.0	4.60	
	3	18.5	5.09	
	4	20.0	5.85	
84	1	-	6.20	
	2	-	6.52	
	3	-	6.88	
	4	-	7.50	
85	1	-	7.61	
	2	-	7.75	
	3	-	7.91	
	4	-	8.78	
86	1	-	9.55	
	2	-	11.22	
	3	-	12.31	
	4	-	13.11	5.82
87	1	-	13.61	
	2	-	14.16	
	3	-	14.18	

PRODUCTIVITY (LBS/BUDGETED LOOM-HR) AND EFFICIENCY (%)

1. BJMC Mills: Weaving

FY	Hessian				Sacking				CBC			
	Est.		Actual		Est.		Actual		Est.		Actual	
	P.	E.	P.	E.	P.	E.	P.	E.	P.	E.	P.	E.
80	6.3	49	-	47	17.7	60	-	60	13.5	66	-	59
81	6.6	51	-	47	19.4	65	-	61	13.6	66	-	57
82	7.1	54	6.0	46	21.0	71	16.5	57	13.7	67	12.6	57
83	7.5	58	6.7	51	21.3	72	18.5	61	14.4	70	13.2	57
84	8.0	62	6.6	50	21.7	74	16.2	62	15.0	73	13.9	60
85	-	-	6.4	48	-	-	16.5	60	-	-	13.4	58
86	-	-	6.3	47	-	-	17.1	58	-	-	12.9	56
Avg.	7.1	55	6.4	48	20.2	68	17.0	60	14.0	68	13.2	58

2. BJMA Mills: Weaving

FY	Hessian		Sacking		CBC	
	Actual		Actual		Actual	
	P.	E.	P.	E.	P.	E.
84	6.9	-	18.2	-	14.4	-
85	6.5	47	16.4	62	13.8	57
86	7.0	48	19.9	61	14.6	60
Avg.	6.8	48	18.2	62	14.3	59

3. BJMC and BJMA: Wastage on Narrow Looms

FY	Overall (%)			Jute-to-Jute (%)		
	Estimated	Actual		Estimated	Actual	
		BJMC	BJMA		BJMC	BJMA
80	6.5	7.2	-	1.0	0.4	-
81	6.5	6.8	-	1.0	0.4	-
82	6.5	6.7	-	1.0	0.9	-
83	6.5	6.7	-	1.0	1.2	-
84	6.5	6.6	6.6	1.0	1.0	-
85	6.5	7.6	7.6	1.0	1.7	2.7
86	6.5	6.8	6.8	1.0	0.9	1.9
Avg.	6.5	6.9	7.0	1.0	0.9	2.3

FINANCIAL AND ECONOMIC PERFORMANCE

A. Financial

1. Profit (loss)

Estimated at Appraisal (Tk. Million)

	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
Total	949	366	387	427	488	-	-

Actual

BJMC	1,062	338	(654)	247	(296)	(1,462)	(1,582)
BJMA	-	-	-	-	6	(854)	(771)
Total	1,062	338	(655)	247	(290)	(2,316)	(2,353)
FY80-86	(3,787)						

2. GOB Cash Infusion (Tk. Million)

Est.	480	420	360	350	300	-	-
Actual	500	400	314	255	250	250	250

Total 2,219

* Estimated for 66 mills.

3. Debt/Equity Ratio of BJMC Mills

Est.	2.45	1.50	0.92	0.64	0.47	-	-
Actual	3.23	2.59	4.56	2.17	2.10	-ve E	-ve E

GOB Capital Infusion of Tk. 3,769 million is required to reach LTD/E ratio of 1.50 (Annex 5).

B. Economic

1. Foreign Exchange

Estimated at Appraisal: Increase from US\$268 million (FY79) to US\$443 million (FY84)

Actual: \$385 mil. (FY80), \$302 mil. (FY84) to \$293 mil. (est.FY86)

2. Employment (Permanent Workers)

Appraisal Estimate: FY80 to FY84 - 143,000 workers

Actual: (FY86):	BJMC	103,900
	BJMA	53,200
	Total	157,100

BJMC'S INCOME STATEMENTS
(Tk Million)

	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
Total Sales	6,347	6,403	6,210	5,498	5,150	6,337	6,240
Cost of Sales	4,710	5,793	6,517	5,029	5,159	7,570	7,588
Gross Profit	1,637	610	(308)	469	(41)	(1,233)	(1,348)
Adm.-Sell Exp.	594	293	356	239	269	249	250
Layoff Exp.	-	-	11	-	-	-	-
Op. Profit(loss)	1,043	317	(675)	230	(310)	(1,482)	(1,598)
Other Income	19	21	21	17	13	20	16
Net Profit(loss)	1,062	338	(654)	247	(296)	(1,462)	(1,582)
Gov't Subsidy	-	-	-	-	-	-	-
Profit (loss) after Subsidy	1,062	338	(654)	247	(296)	(1,462)	(1,582)
Previous Yr. Adj.	(78)	(137)	(4)	10	2	-	(1,022)
Net after Adj.	984	200	(658)	257	(294)	(1,462)	(2,604)
Workers PP Fund	25	12	17	75	1	-	-
Perform. Bonus	74	79	-	-	-	-	-
Nat. Exchequer	121	429	50	50	-	-	-
Previous Yr. PLA	(2,527)	(1,745)	(2,071)	(1,735)	(1,543)	(1,700)	(3,162)
Prov. Tax	4	77	32	56	13	-	-
Transferred to Balance Sheet	(1,767)	(2,071)	(2,813)	(1,591)	(1,851)	(3,162)	(5,766)

COMMENTS RECEIVED FROM THE BANGLADESH
JUTE MILLS CORPORATION (BJMC)



Ministry of Finance
External Resources Division
Government of the People's Republic of Bangladesh
Sher-e-Bangla Nagar
Dhaka-7

From: M. Humayun Kabir
Asstt Secretary.

D.O. No. ERD/IDA-IV/Ind-3/90/223

Dated 12/9/90

Sub: Submission of Jute Industry Rehabilitation Project
(Credit 1032-BD) PCR (Part-II)

Ref: ERD/IDA-IV/Ind-3/90/183 dated : 7/8/90

Dear Mr. Islam,

With reference to this Division's letter of August 7, 1990 on the above Subject. I am enclosing the comment on Jute Industry Rehabilitation projects relating to PCR (Part-II) as received from Ministry of Jute for information and necessary action at your end .

With best regards.

Yours sincerely


(M. Humayun Kabir)

✓ Mr. Reazul Islam
Program Officer
The World Bank/RMB,
3A Paribagh, Dhaka

COMMENTS OF BANGLADESH JUTE MILLS CORPORATION
ON THE PROJECT COMPLETION REPORT

JUTE INDUSTRY REHABILITATION PROJECT(CREDIT 1032-BE)

BACKGROUND

Under the Jute Sector Study, Economic Consultant Ltd (ECL, as part of the sixth import programme credit action programme and paid by ODA/UK executed mill by mill survey to assess the BMIT requirements of the jute industry and submitted their report to BJMC in November, 1978. In May, 1979 a GOB interministerial study group was formed who reviewed the report of ECL and instead of accepting the same because of its capital intensive programmes for achieving lower productivity and other shortcomings, prepared a modified proposal minimising the investment cost for better benefit and submitted to the world Bank. Appraisal was carried out by the World Bank in December, 1979 and Credit Agreement (Development Credit Agreement No.1032-BE) was signed between the Government of Bangladesh (GOB) and the International Development Association (IDA) on June 1, 1980 for US\$ 20 million for financing different project components.

PROJECT OBJECTIVES

The objectives of the project were to increase the production efficiency through rehabilitation of machinery by spare parts, preventive maintenance of machinery by spare parts, balancing the existing facilities of 66 jute mills through intermill transfer of machinery, introducing third shift operation in the back processing deptt, improving the management and control through re-organisation of BJMC, introducing new accounting system and training programme.

(Fig. in million US\$)

<u>CATEGORY OF CREDIT PROCEEDS</u>	<u>ORIGINAL ALLOCATION</u>	<u>REVISED ALLOCATION</u>
(1) Rehabilitation of machinery	9.520	9.520
(2) Dial type scales	0.250	0.250
(3) Preventive Maintenance	9.000	8.807
(4) Civil works, equipments, materials, furniture for training programme.	0.130	0.000
(5) Consultant services (Re-organisation of BJMC, IAS, New Accounting system)	0.400	0.023
(6) Un-allocated	0.100	-
Total	20.000	20.000

CREDIT EFFECTIVENESS AND CLOSING

The credit was made effective by IDA from July 22, 1980. The original closing date of the credit was June 30, 1984 which was extended upto June 30, 1986. Disbursement was, continued upto January, 1987.

PROJECT COMPLETION

The World Bank/IDA prepared Project Completion Report and sent it to BJMC for comments. Comments of Bangladesh Jute Mills Corporation (BJMC) in short on the points ^{related} relate to it are furnished below :

<u>Page of PCR</u>	<u>Item of PCR</u>	<u>Comments of BJMC</u>
3	2.09	The position of world demand of jute and jute goods have been precisely explained and appear to be correct.
3	2.10	The reason for decline in demand of jute in the world market have been precisely stated and also appear to be correct.
4	2.11	Although it has been mentioned that reduction in raw jute price was insufficient to compensate for both lower sale price and higher production cost, it would be unwise if further reduction in raw jute prices at grower's level is allowed.
4	2.12	Instability in raw jute prices is very harmful for the jute industry. As such mechanism has to be evolved for making some buffer stock. Raw jute accounts for 35% of the production cost now but not 50% - 60% as mentioned in the report.
4	2.13	Explanation given about the management of jute mills between the public and private sector appear to be correct.
4	2.14	From 1974-75 to 1978-79 BJMC's jute mills accumulated losses amounted to Tk. 2782.83 lakh or 16.75% of total value of sales. During the same period amount of subsidy and GOB Equity were Tk. 10042.09 lakh and Tk. 6450.94 lakh respectively.

<u>Page of</u> <u>PCR</u>	<u>Item of</u> <u>PCR</u>	<u>Comments of BJMC</u>
		<p>in the period of 1979-80 to 1985-86 BJMC jute mills losses amounted to Tk. 23564.20 lakh or 5.59% of total sale. During the above period GOB equity infusion was Tk. 17138.58 lakh.</p>
4 - 5	2.15	<p>(a) Export subsidy for raw jute is not desirable. Rather, prices and supply instability should be reduced through</p> <ul style="list-style-type: none">(i) Buffer stock operation, (ii) Strengthening of storage capacity by both public and private sector and(iii) Improving raw jute procurement policy by mills and stabilising acreage under jute and improving yields. <p>(b) The BJMC authority has taken up a programme to improve the operational efficiency by means of rationalisation of machinery utilization according to market demand by closing down certain number of Hessian and sacking looms alongwith associated machinery and also by closing down the third shift of the CBC mills and thereby improve productivity and minimise cost. Due to continuous losses, excepting few years, the capital structure of the BJMC mills is exhausted. As such financial restructuring is necessary to bring the debt, equity ratio <i>at standard</i> level of 60 : 40. As regards increase autonomy of the BJMC mills, the nature and extent of delegation of powers need to be carefully examined and determined.</p> <p>(c) The recommendation for strengthening of institutional capacity of the Govt. to plan monitor and implement the jute policy etc may be considered by GOB.</p>
5 & 6	3.01 & 3.02	<p>IDA has described the condition of jute industry and the process of formulation of Rehabilitation project under IDA Credit No. 1032-BD. No comments.</p>

<u>Page of</u> <u>PCR</u>	<u>Item of</u> <u>PCR</u>	<u>Comments of BJNC</u>
6	3.03	IDA has described the objectives of the project. No comment.
6	3.04	IDA has described the areas targeted for utilization of US\$ 20 million. No comments.
7	3.05	IDA's original allocation and revised allocation of fund has earlier been mentioned under the category of credit proceeds. IDA may look into the revised allocation for performance analysis.
8	4.01	IDA has indicated the date of effectiveness of the credit. No comments.
8	4.02 & 4.03	IDA has described the issue of denationalisation, retaining of ownership and post denationalisation conditions of the jute mills sector. No comments.
8	4.04	IDA has described the situation for non-utilisation of IDA Credit proceeds falls on their share after denationalisation. The position seems to be correct.
8	4.05	IDA has mentioned the nature of actions agreed at project formulation for improving the production of yarn and jute goods. As such there is no comments to offer in this regards.
0	4.06 (a)	Procurement of spare parts was decentralised to the individual mill. But for better utilisation of fund and economic purchase, procurement under IDA credit was centralised to BJNC, Head Office in 1980 which continued upto June, 1982. Because of changing circumstances and also to save time procurement of spare parts under IDA credit was again decentralised to mill level after June, 1982. During the period from July, 1980 to June, 1982 BJNC centrally procured spare parts on the basis of indents received from the mills. Due to voluminous procurement and dearth of manpower counter checking could not be done.

<u>Page of</u> <u>PCR</u>	<u>Items of</u> <u>PCR</u>	<u>Comments of</u> <u>BJMC</u>
		<p>The concept of rehabilitation was also not clear at the initial stage. Moreover, BJMC/Mills used to place orders on the basis of catalogue numbers which were known to the original manufacturers. But later on many unknown manufacturers came in. Because of all the above factors anomalies in some cases in respect of specification, spares procurement, etc, occurred.</p>
		<p>(b) -do-</p>
		<p>(c) Delays in issuing qualified Agreement to Reimburse (QAR) made corresponding delay in opening L/C's for which validity of offers in many cases expired, changing financing system, delay in implementation etc delayed disbursement of IDA credit proceeds .</p>
		<p>(d) Because of delay in issuing QAR by IDA L/C's could not be opened immediately after placing of orders which resulted delay in delivery by the suppliers.</p>
		<p>(e) In some cases the mill management could not spare all the machines at a time for rehabilitation because of sales commitment and other unavoidable circumstances. Nevertheless about 5000 different types of machines were rehabilitated by spare parts in BJMC jute mills and machine condition and efficiency also improved/increased in appropriate cases.</p>

<u>Page of</u> <u>PCR</u>	<u>Items of</u> <u>PCR</u>	<u>Comments of</u> <u>BJMC</u>
9	4.07	IDA described the actual position which could not materialise the programme of inter mill transfer of machinery as described in the project. No comments.
9	4.08	Because of non-implementation of inter mill transfer of machinery and continuous shifts to lighter fabrics for market reasons coupled with lower efficiency of FLCB, FLTM & Low spinning frames most of the jute mills are operating third shift in order to meet the requirement of yarn for weaving production according to capacity. As such outcome of third shift operation as conceived in the project has not been materialised.
10	4.09	For importing spare parts against the allocation of preventive maintenance, the concerned jute mills provided take over from their own sources and not from ADP because this was not covered under development financing. Out of total allocation of US\$ 8.807 million actual disbursement made for US\$ 4.92 million. The balance could not be utilised partly because of denationalisation of jute mills and partly for time limitation/shortage of fund in SAFE , Account/counterpart fund in the mills to finance import of spare parts exceeding to their requirement before closing of the credit.

<u>Page of PCR</u>	<u>Items of PCR</u>	<u>Comments of BJMC</u>
10	4.10	<p>The original allocation of US\$ 0.130 million was found in sufficient for construction of three fulfilled training centres as well as procurement of furniture & fixture and training equipments. As such an approach from BJMC IDA revised the allocation to US\$ 0.800 million against which US\$ 0.480 million actually spent. Balance amount could not be utilised partly because of higher take value of US\$ and partly for discontinuation of the project from ADP. Although 9 training centres including three fulfilled ones were put into operation, 3 centres (fulfilled) are now operational and the remaining six have been discontinued owing to reduction of number of jute mills after denationalisation and also for discontinuation of the project from ADP regarding transfer of machinery it is true that a few training equipments have been transferred to Adajee Jute Mills/BJMC testing laboratory for emergency purposes but even then operational training centres do have many equipments for demonstration/use of the trainers. It may be mentioned that after commencement of operation of training centres a total number of 8231 persons of various categories have been trained in the training centres including Adajee's.</p>
10	4.11 4.12 & 4.13	<p>For appointment of consultant for reorganisation of BJMC international tenders were floated on 23 June, 1980, opened on 23 July, 1980 and consultant was also selected. But delay in the process of taking concurrence of the World Bank on the draft agreement and subsequent policy of denationalisation of the jute mills, re-drafting of terms of reference and obtaining of re-approval from GOB and IDA delayed appointment of the consultant. However, the consultants were appointed on 29 November, 1984 who after completion of study submitted their report to BJMC on 17th August, 1985.</p>

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		<p>The recommendations of the consultants were examined in BJMC. Since the recommendations of the consultants deeply touched the fundamental issues of the corporation, BJMC submitted its comments to the Ministry of Jute on 13 March, 1980 for kind perusal and decision.</p>
11	4.14 4.15 & 4.18	<p>BJMC studied the Process Accounting System and introduced in two mills on trial basis in parallel to existing system and found it lengthy complicated and costly. As such IDA was approached in November, 1984 to drop it, to which they consented. However, the BJMC authority later on reviewed the matter and introduced the process accounting system in the jute mills.</p>
11	4.16	<p>A local firm M/s. EAP Associates was appointed to design and implement MIS for BJMC and its enterprises who after carrying out detailed study prepared a system and submitted to BJMC in 1979. The system was, however, implemented after required modification, from 1.7.1980. Therefore, further engagement of consultant for MIS was not required. MIS is computer based information system. BJMC has no computer of its own. Collection of data from large number of projects and to process them is very voluminous job which was done manually. At the initial stage of operation of MIS there were dearth of trained manpower. Now the situation has improved because of improvement of working manpower with MIS training. Raw Jute procurement of BJMC is made through agencies/ghats. This work is very voluminous for which input data could not be checked properly. At present raw jute purchase, export analysis and pricing are being computerised through the computer of Adamjee Jute Mills and the quality and consistency of reports have been improved.</p>

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12	4.18	The consultant was appointed on 28 December, 1981 who after carrying out in depth study submitted their report to BJMC on 27 December, 1982. The recommendations of the consultant were examined in BJMC and found complex and difficult to implement. However, The consultants who recommended for piece rated wages to the workers of back processing Deptts(Batching to spinning) in place of existing time rated wages was asked for trial implementation to show the practical results. They carried out trial implementation in Nishat Jute Mills of BJMC in March/April, 1986 and submitted implementation report to BJMC on 4 June, 1986. Although the consultants claimed the scheme as practical and suitable, it was further examined by a committee in BJMC but found not suitable and practicable for implementation.
12	4.20	In fact weighing scales were procured for weightment of spinning production. But non-introduction of production incentive scheme because of its shortcomings/impracticability, those scales have not been used for the purposes these were actually meant for.
12+13	4.21, 4.22 & 4.23	Relate to Jute Stragey Cell of MOJ. No comments.
13-14	4.24	The position of actual profit/loss and GOB <i>in fulfilment</i> to BJMC are presented in the table below :-

(Fig. in lakh Tk.)

<u>Financial Year.</u>	<u>Nos. of Unit</u>	<u>Profit/Loss</u>	<u>GOB inflation</u>
1979-80	73	10623.43	10316.35
1980-81	74	3375.22	3979.12
1981-82	75	(6553.17)	3817.31
1982-83	46	2398.09	(7539.15)
1983-84	42	(2064.95)	2402.61
1984-85	40	(14617.07)	1653.01
1985-86	39	(15823.75)	2507.33
Total :		(2384.20)	17136.58

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		Because of continuous losses the equity base of BJMC jute mills is negative. As such additional cash infusion of Tk. 76747.76 lakh would be required (as per audited accounts as on 30-6-89) to maintain 60:40 debt equity ratio for BJMC jute mills.
14	4.25	rules As per/the accounts of the jute mills are audited. At present there is no audit backlog of BJMC jute mills. If there appears any gross irregularity in the report timely action is taken for disposal of the same. Actions taken on the audit observation/comments are discussed in the Enterprise Board meeting in details and accepted the accounts and Audit reports with orders/instruction if any, by the Enterprise Board .
14	4.26	Procurement of goods and services under the project was delayed considerably for lack of co-ordination between BJMC and mills managers is not entirely true because BJMC in the first stage placed orders on the basis of indents sent by the mills and after decentralisation of procurement, BJMC maintained close. Co-ordination with the mill management deputing officers to apprise them with IDA procurement procedures, help in selection of rehabilitation machinery and required spare parts, and also advising possible solution of problems etc. But procurement was delayed for many reasons such as tendering/retendering as per IDA procedures/guidelines, participation of unknown suppliers whose products had to be tested before placing of orders, delay in issuing QAR by IDA making corresponding delay in opening of L/C's, system of obtaining Right of Refusal (ROR) from the GOB (Ministry of Industries) in case of imported items, delay in opening of L/C's made corresponding delivery in supply of spare parts etc.

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15 4.27 The position of credit utilisation as per BJMC's record is given in the table below :

Items	(Million US \$)			
	Appraisal Estimate	Revised allocation.	Actual disbursement	Un-utilized balance
1. Equipment, spares and materials for				
(a) Rehabilitation	9.520	8.520	6.500	1.020
(b) weighing Scale	0.250	0.250	0.130	0.120
(c) Preventive maintenance	9.600	8.807	4.920	3.887
2. Civil works (Training Centres)	0.150	0.800	0.180	0.320
3. Consultants services	0.100	0.623	0.090	0.533
4. Unallocated	0.100	-	-	-
Total :	20.000	20.000	14.120	5.880

The reasons for non-utilisation of US\$ 5.880 million were attributed mainly to the cancellation of the share of GO-nationalized jute mills (US\$ 1.283 million) by IDA, non engagement of consultants for financial and process Accounting systems, delay in issuing QAR by IDA, introduction of new financing system i.e. Special Account in Foreign Exchange (SAFE) by IDA at the last stage of the project cycle, delay in introduction of SAFE system by Bangladesh Bank and non-consideration of further extension of the credit by IDA.

15 & 16 4.28 Comparative position between the estimated disbursement programme and actual disbursement as per BJMC's record is shown in the table below :

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
Cumulative appraisal Estimate	0.000	14.000	20.000	-	-	-	-
Actual as per V/Bank	0.200	3.900	5.800	7.500	8.600	13.100	14.200
BJMC record	0.160	3.780	5.720	7.360	8.880	13.300	14.120

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		The statement of IDA to the effect that BJMC extensively used IDA's QAR procedures for procuring imported and domestic spares is not entirely correct because no QAR was required for procurement of spares from domestic sources. Lot of time lapsed in between stopping of issuing of QAR by IDA and commencement of operation of SAFE account in Bangladesh. Other explanations in respect of delay in utilisation of fund such as Bangladesh Bank's conservative approach not allowing BJMC to open L/C's over and above the funds available in IDA, Govt cut off RPA allocation of ADP, resource constraint of BJMC etc. appear to be correct.

15 4.29 Statement of IDA appears to be correct.

16 4.30 The comparative position of actual utilisation of credit proceeds broken down with BJMC and BJNA is shown below :-

Items	Actual utilisation as per W/Bank			Actual utilisation as per BJMC Record		
	Foreign	Local	Total	Foreign	Local	Total
Spares & Equipment						
(1) Rehabilitation						
BJMC	7.940	4.360	12.320	7.560	4.282	11.842
BJNA	0.940	1.050	1.990	0.940	0.456	1.396
(2) Preventive Maintenance						
BJMC	3.800	-	3.800	4.114	-	4.114
BJNA	0.810	-	0.810	0.806	-	0.806
	4.610	-	4.610	4.920	-	4.920
(3) Weighing Scale						
BJMC	0.070	-	0.070	0.070	-	0.070
BJNA	0.060	-	0.060	0.060	-	0.060
	0.130	-	0.130	0.130	-	0.130
Institution Building						
Training						
BJMC	0.470	-	0.470	0.473	0.160	0.633
BJNA	0.010	-	0.010	0.003	-	0.003
	0.480	-	0.480	0.480	0.160	0.640
Consultancy						
BJMC	0.080	-	0.080	0.080	-	0.080
Taxes & Levy						
BJMC	0.000	3.000	3.000	-	0.714	0.714
Total :	14.100	8.430	22.530	14.120	5.512	19.632

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17	5.01	This is introductory para of "operational performance" which has been detailed in the subsequent paragraphs. As such comments have been given against the concerned issues next in order.
18 & 19	5.02	Figures have been checked and found almost correct.
20	5.03	Production achievement per loom per hour for the years 1984-86 of the BJMC jute mills for both Hessian and Sacking appear to be correct. But in respect of better performance of BJMC jute mills, their calculation system need verification. It may be mentioned that BJMC mills produced number of fabrics as per world demand for which frequent quality change happens, achieving desired production efficiency but BJMA mills produced limited numbers of fabrics for which their efficiency is reportedly a bit higher than BJMC's. In case of wastage BJMC mills's performances are better than BJMA's.
20	5.04	It is true that overall production of 1985-86 was lower than that of 1979-80. It may be mentioned that the production of 1979-80 was based on standard fabrics. But later on according to world market demand BJMC produced notable quantities of non standard fabrics such as <i>gala</i> fabrics, narrower width cloths etc. The above factors together with market constraint, frequent power failure, labour unrest etc made the situation un-favourable which resulted lower productivity.
20	5.05	It is also true that BJMC jute mills have excess manpower. Under the present socio-economic condition of the country reduction of manpower has not been possible in the case of BJMC mills, while in the case of BJMA mills it has been possible. Because of the reduced size of manpower labour productivity in BJMA jute mills appears to be higher than BJMC's.

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20	5.06	Currently the raw jute and labour cost accounts for 32% and 31% respectively of the total cost of jute goods as against 50-60% and 25-30% shown in the report. The actual loss of the BJMC jute mills during the period 1980-1986 was Tk. 23564.20 lakh i.e. Tk. 2.36 billion.
21	5.07	This is an index comparison of unit (\$/Ton) sales/cost. No comments.
21	5.08	The reasons stated for increase of losses in the BJMC jute mills appear to be correct.
22	5.09	The reasons stated for non-computing the financial and economic rates of return, ^{of} the project seems logical.
22	5.10	Comments in respect of re-organisation of BJMC/mills, MIS, Jute strategy cell in MOJ, Financial Process Accounting, Audit, Training centres have been given in the respective paragraphs earlier.
22	6.01	IDA has mentioned here the role played by them for improvement of performance of jute industry by providing foreign exchange under different earlier. Hence ^{no} _A comments.

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22 & 23	6.02	IDA has described the recommendations made by them on different issues such as autonomy, privatisation, reduction of excess employment, capacity restructuring human resource development, reduction of instability of the raw jute supply and prices etc. for long time survival of the jute sector. Comments on excess, employment and human resource development have been given earlier and comments on other issues relating to BJMC have been given in the subsequent paragraphs.
23	7.01 & 7.02	This paragraph is the summary of conclusion and lessons learned from the rehabilitation project. Comments have been given against each of the issues separately in the relevant paragraphs next. The programme of rehabilitation of machinery by spares parts was taken up to improve the condition of machinery as well as efficiency/productivity instead of capital intensive BMH programme. After rehabilitation, condition of machinery has improved and efficiency/productivity also increased in appropriate cases. In this respect the project objective is achieved to some extent. But the programme of improving overall productivity was associated with many other factors, i.e. ensuring steady power supply, training programme for manpower development, creation of accommodation facilities in the mills for reducing absenteeism, creation of schooling /recreational facilities for the workers/workers' children, inter-mill transfer of machinery, operation of third shift in the back process deptt. to meet the shortage of yarn requirement of weaving side, marketing etc. have not been fulfilled as expected at the time ^{of} project formulation. The above factors have also, amongst others, contributed to a great extent for non-achievement of the projects objective. As regards excess capacity BJMC has taken up a programme to improve the operational . . .

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efficiency by means of rationalisation of machinery utilisation according to market demand by closing down certain number of these Hessian & Sacking looms alongwith associated machinery and also by closing down third shift of the CBC mills and minimise cost.

Closure of high cost mills in the public sector may create socio-economic problem resulting from unemployment. Non-utilisation of assets will also create financial burden on the mills by way of interest payment including blocking of capital. The high production cost mills may be turned into low cost mills utilising the capacity fully and efficiently. If the jute mills are able to supply jute goods at a competitive price the total sales/export may be increased and excess capacity eliminated. However, the govt. has already taken some measure to revitalise industry. The amount of loss sustained by the jute mills from 1984-85 to 1988-89 was segregated and kept in a frozen account in order to improve the cash credit drawing power of jute mills from the commercial banks. The loan will be repayable in 10(ten) years with 3(three) years moratorium which came into effect from 1st July'89. During the moratorium period interest payable would be the responsibility of the govt. The jute mills have been/would be given cash subsidy on the export earning of jute goods. @ 10% for sacking, 15% for Hessian and 20% for CBC & yarns 20% on the basis of fixed criteria. If the jute mills fail to improve their performances and efficiency as per fixed criteria they will face closure in the case of public sector mills or the same withdrawal of total subsidy in case of private sector mills. Besides, the issues like (a) excess manpower, (b) excess capacity (c) BMR requirement (d) financial restructuring requirement (e) Stagge-ring of BJMC's past liabilities are, amongst others,

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		included under the proposed jute sector restructuring Project of the World Bank to be sponsored by the Ministry of Jute.
24	7.04	The nature and extent of autonomy need to be carefully examined and determined. It may however be mentioned ^{that} the project managers are supplied with standard set-ups for the mills for employment of labours and standard wage schedule for payment of wages and they are supposed to purchase jute from certain market at a co-ordinated rate arrived at after discussion by all the buying mills. This system has been introduced as all the mills under BJMC are treated to have a single entity with same objectives of cost, economy and higher productivity. But this has failed mainly because of loss of market share to the competitors and synthetics.
24	7.05, 7.06 & 7.07	Relate to policy decision of GOB. No comments.
25	7.08	(a) The position stated by IDA in respect of operation of SAFE Account in Bangladesh and the problems created thereof is correct. (b) IDA has stated that cross checking of expenditure could not be made because of non-availability of bill by mill, disbursement record with them. As such no comments to offer in this regard. (c) The statement appears to be not correct. The jute mills procured the spare parts on the basis of latest rehabilitation/preventive maintenance assessment taking into consideration of the machinery condition and other factors but not on the basis of assessment made during 1978-79.

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25	8.01	Relate to policy decision of GOR. No comments.
26	8.02	The observation of IEA about collection, monitoring and dissemination of adequate information on the jute market condition will help determining market conditions. But export subsidy for raw jute is not desirable. Better stock operation and improved storage facilities may help stabilize both supply and prices.
26	8.03	In view of excess capacity over the demand, BJMC has decided to limit the capacity to produce 2.35 lakh tons of jute goods in a season and sacking and to operate the CBC mills in 2 shifts instead of 3 shifts and thereby reduce the manpower and minimize cost of production by improving overall productivity. The proposal is under preparation for submission to the Ministry of Jute for approval.
26	8.04	Because of continuous losses the equity base of BJMC jute mills is negative. As such equity infusion is required to the tune of Tk. 70747.76 lakh i.e. Tk. 7.07 billion based on audited accounts as on 30.6.89. Regarding autonomy comments have been given against item 24 earlier.
26	8.05	The contention of IDA that performance of the private sector mills is some what better than mills under BJMC cannot be accepted because the conditions of the two sectors mill are not the same. <u>Firstly</u> , the private sector mills reduced the size of manpower through retrenchment but BJMC mills could not take such measures because of socio-economic condition. <u>Secondly</u> , BJMC mills produce number of fabrics as per demand of the buyers for which frequent quality change hampers achieving desired efficiency and production. But in case of private sector mills they produce limited numbers of fabrics. As such performance evolution between the two sectors mills having different conditions does not give actual comparative result. Regarding closing down of private sector mills it relates to GOR policy decision.