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IMPLEMENTATION COMPLETION REPORT

BANGLADESH

JUTE SECTOR ADJUSTMENT CREDIT
(Credit 2567-BD)

March 10, 1998

Finance & PSD Sector Unit
South Asia Region

CURRENCY EQUIVALENTS

January 1994 (credit approval):
US$1.00 = Tk. 39.85

October 1997 (currently):
US$1.00 = Tk. 44.55

(1 crore Taka = 10 million Taka
1 lakh Taka = 100,000 Taka)

ABBREVIATIONS AND ACRONYMS

BJMC	Bangladesh Jute Mills Corporation
BJC	Bangladesh Jute Corporation
DCA	Development Credit Agreement
GDP	Gross Domestic Product
GOB	Government of Bangladesh
ICR	Implementation Completion Report
IDA	International Development Association
JSAC	Jute Sector Adjustment Credit
SDR	Special Drawing Rights

FISCAL YEAR

July 1 - June 30

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PREFACE

This is the Implementation Completion Report (ICR) for the Jute Sector Adjustment Credit (JSAC) to Bangladesh (Credit 2567-BD) in the amount of SDR175 million equivalent, which was approved by the IDA Board on February 17, 1994 and made effective on April 5, 1994.

The JSAC was closed on June 30, 1997, compared with the original Closing Date of December 31, 1996. The first tranche in an amount of SDR35 million, released upon effectiveness, was fully disbursed by March 2, 1995. The other three tranches originally scheduled for disbursement -- the second, third and floating tranches -- were not released by IDA due to lack of compliance with agreed actions prior to disbursement. In addition, the Association approved the equivalent of SDR9.1 million in IDA reflows for the financing of JSAC, of which only SDR2.41 million were actually disbursed, as the remaining funds were contingent on the release of the three undisbursed tranches. All told, the Association provided SDR37.41 million in credits for the financing of the Project. There was no cofinancing for the Program from outside sources.

This ICR was prepared by the Finance and Private Sector Development Unit, South Asia Region, and reviewed by Ms. Marilou Uy, Sector Manager, and Mr. Alfredo Dammert, Task Team Leader for JSAC.

Preparation of this ICR was begun during an IDA mission that took place in June/July 1997. Also, it is based on material in the project files and on perspectives gained by the Region during its continued involvement in structural reform and associated technical assistance operations in Bangladesh. The Borrower contributed to the preparation of the ICR by commenting on the draft ICR and by preparing its own evaluation of the Program's execution, which has been reproduced (unedited) in the Appendix.

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EVALUATION SUMMARY

i. The fast disbursing SDR175 million Jute Sector Adjustment Credit (JSAC) provided financing for the Government of Bangladesh (GOB)'s structural adjustment program of the jute mill industry (the Program). Its ultimate objective was to create a viable, essentially privately owned jute industry operating on normal commercial basis in a reformed policy environment. In the three-year period 1994-96, the GOB intended to increase efficiency in the jute mill industry, by transferring most of the operating capacity to the private sector and by giving it a new ability to adjust to a weak world demand and the technological changes affecting cargo handling and transportation worldwide. The aim was to make this Bangladeshi industry a more dynamic force in world markets, where it traditionally has been the dominant player.

ii. The Program conditionality included in the Matrix of Policy Actions required: (a) the elimination of excess capacity by closing and selling the assets of 9 out of 29 public mills and downsizing one large public mill; (b) the retrenchment of about 20,000 public mills employees; (c) the restructuring of some US$900 million of jute sector debt -- including debt-forgiveness, rescheduling and temporary operating subsidies; (d) the privatization of 19 of the remaining 20 operating public mills; (f) the implementation of a training program for workers and managers employed by jute mills; and (e) the closing and liquidation of the assets of the Bangladesh Jute Corporation (BJC), the state trading company. In addition, the GOB made a commitment to maintain a macroeconomic policy framework consistent with the Program, including wage policies in the jute sector aimed at restoring and then maintaining profitability in the industry. Also, the GOB agreed to promote legislation that introduced a mandatory retirement age for public sector workers, establish prudential guidelines to govern lending by banks to mills on purely commercial basis, compensate banks for some of the losses incurred in the debt workouts that benefited jute mills, and implement a program to retrain mill employees laid off as a result of the retrenchment in the industry.

iii. Achievement of objectives. At the time of its closing, the ultimate objective of the JSAC Program had not been achieved. The industry's viability had not improved and during the three and a half years of actual program execution, the public sector operating mill capacity registered a significant increase in its share. However, the policy environment for the jute industry improved: subsidies to the industry were eliminated, direct controls on operations were removed, export quotas were lifted, and wages in the private sector were delinked from those of public mills. As to compliance with specific tranche conditionality, most progress came as a result of actions taken prior to JSAC's Board presentation. Achievements during that period justified the release of the first tranche following effectiveness. In this pre-Board stage, 4 public mills were closed and 1 downsized. In addition, 12,000 workers at public mills were retrenched. Most importantly, BJC, the largest money loser, was closed. No other tranche releases took place during implementation. Although, the GOB carried out the debt restructuring and additional labor retrenchment required under the subsequent tranches, it did not implement the privatization/closure program, which were main conditions under such tranches.

iv. Major factors affecting the Program. As identified in the President's Report, the political difficulty of sustaining the momentum for reform in the jute mill industry was potentially the main obstacle to the successful implementation of the Program. Despite the GOB's initial success, soon after JSAC became effective the GOB political will to carry out the Program started to rapidly disappear. The political problems faced by the Program were compounded by a general climate of civil unrest and disturbance in the country that started to materialize late in 1994 and that did not subside until 1996. This state of affairs was particularly damaging to the critical components of privatization and mill closing, two of the pillars on which the Program rested.

v. Although the design of the Program addressed all major relevant issues, it could have improved in some areas. Better understanding could have been reached between IDA and the GOB as to the potential outcome of the privatization component. IDA's position was that the result of the privatization program should be determined by the market, and that the ultimate size of the jute industry should depend on this. While this is an adequate position from the point of view of desirable economic policy, the GOB agreed to the Program based on the expectation that the industry would remain operating at about the same levels, and were reluctant to take any actions that could result in an overall smaller industry. Also, more attention could have been paid to the design of the privatization strategy and to ensure an adequate privatization infrastructure. The strategy should have analyzed the viability of privatizing the mills, and estimated from the beginning the volume of financial resources necessary to conduct proper mill workouts, including labor retrenchment and further debt restructuring, necessary to make such mills attractive to private investors. Instead, the strategy relied on the possibility to revise the tender process based on the results of a pilot privatization under the floating tranche. A related technical assistance operation provided sufficient resources to properly support the staffing and operation of the Privatization Board (PB), but in retrospect this was not enough. During most of the implementation period there was little political and technical leadership at the PB level, while the consulting work hired to assist with the privatization process was unsatisfactory. Another factor that slowed down the privatization efforts was the fact that at the time of Program design it was not yet possible for IDA to finance directly labor retrenchment. The lack of such mechanism made it difficult for the Ministry of Jute to obtain timely funding for the retrenchment of jute mill workers. Also, although the rationale for providing higher loss financing support to public mills than to private mills was to support the orderly contraction of capacity under public ownership and avoid the deterioration of public mills prior to privatization, such arrangement created a non-level playing field unfavorable to private mills.

vi. IDA performance. The process of Program identification made by IDA covered well the main factors that caused the deterioration of the jute industry: impact of declining world demand for jute; dominance of the public sector; government controls on exports, wages and level of operations; distressed financial situation of public and private mills; and mandatory credit system that isolated the mills from mounting financial pressures. This diagnostic was translated into a comprehensive program design that formed part of JSAC conditionality (para. ii), including: closure of the public trading corporation, capacity rationalization of public mills, privatization of most public mills, elimination of government controls, cost reduction measures through debt restructuring and employment rationalization, improved financial discipline, and wage reforms. In retrospect, a more detailed plan for mill privatization, i.e. concerning labor reduction and debt restructuring, could have been undertaken during project preparation that would have improved design of the Program, and IDA could have ensured that the GOB understood that implementation of the Program could result in a lower overall output for the jute industry. (para. v). IDA could also have established a more selective mechanism for subsidies to the public mills in order to avoid encouraging the worse performing mills to continue operations (para. v). Concerning IDA's decision to go ahead with the program, it was based on its strong commitment to support the GOB's agenda of structural reforms and was designed as part of a series of adjustment operations. IDA recognized the risk that JSAC may fail due to the considerable political difficulties that the GOB would face in sustaining its initial reform efforts, but considered that the benefits associated with a successful outcome justified its strong support. To reduce such risk, IDA frontloaded the conditionality prior to Board presentation. Furthermore, to provide an adequate incentive to continue reform, disbursements under the floating, second, and third tranches were to be made subject to concrete results, which included the privatization/ closure of the public mills as main conditions.

vii. As to IDA's performance during implementation, the agreed Program design and the political environment in Bangladesh largely determined this. Perhaps a more decisive stand could have been taken by IDA on an early cancellation of the Program once it became clear by mid-1995 that the political climate and lack of will by the GOB made the implementation of the Program unlikely. However, IDA agreed to the GOB request to maintain the Program based on the expectation that the political situation would improve and the Program could be continued. After the arrival of the current Administration an agreement with the GOB was reached in September 1996 in the context of the Program's Mid-term review. The relatively large amount of staff/weeks dedicated to supervision during this period illustrates the significant efforts made to rescue the Program. The agreement was reached on a revised implementation schedule with emphasis on decisive up-front actions covering closure and privatization of mills, as well the disposal of redundant assets and the strengthening of the privatization program. Even though there was little action progress prior to the original Closing Date, there were indications of willingness on the part of the new Administration to go ahead with implementation --mainly reflected in renewed privatization efforts, including awarding one public mill to a private bidder. Thus, IDA accepted a six-month extension, to give the GOB more time to act on the agreed up-front actions. However, when no substantive progress was achieved again during such period, IDA decided to close JSAC on the revised date of June 30, 1997. On balance, implementation by IDA was carried out satisfactorily, given the constraints faced during this stage.

viii. Borrower performance. Initially, the Borrower took decisive and important actions that led to approval of JSAC by IDA, but was not able to maintain the momentum of reform. Both Administrations that participated in the execution of the Program found it difficult to gather support for its implementation, fearing that this had the potential to cause large-scale unemployment, loss of traditional export markets and a negative impact on the country's agricultural sector. Given these perceived uncertainties and the high political risks involved, the tendency in both of these Administrations was to muddle through the best they could. They were quite conscious of the need to reform the sector and reduce its losses, but quite unable to come up with alternative plans to reconcile the conflicting interests of financial viability with the maintenance of traditional levels of employment and production in the sector. It is not surprising then, that the resulting implementation performance of the GOB was highly unsatisfactory. Independently of some shortcomings in the Program design, it is felt that with adequate level of political will and commitment on the part of the Borrower, considerably more progress could have been achieved with JSAC in reforming the jute mill industry of Bangladesh.

ix. Assessment of outcome and Program Sustainability. The outcome of the Program is highly unsatisfactory as it failed to achieve its major objectives and is not expected to yield worthwhile developmental results. Also, little sustainability can be expected to be derived from the Program since the industry remains mainly under public ownership, subject to government intervention and political patronage.

x. The above notwithstanding, there were some accomplishments under the Program, as illustrated by the meeting of the pre-Board conditionality and, during implementation, the bank debt restructuring, the training of over 16,000 mill workers, and the introduction of a mandatory retirement age of 65 years for all public employees. Also, there was a moderate improvement in the financial discipline of the sector. Some of the gains are irreversible, e.g. closure of BJMC and four public mills, delinking of wages in private mills from those of public mills, but other improvements have the potential of reversal as they depend on the political will of the Administration. There has been a recent surge in temporary and permanent new positions in public mills in clear conflict with a spirit of reform in these state enterprises.

xi. Key lessons learned. Lessons worth keeping in mind for future IDA operations are:

- The Program confirmed the experience elsewhere that broad internalization of the reform program by the borrower and its executing agencies, accompanied by solid political commitment and consensus at the highest levels of decision making are essential ingredients for any successful IDA structural reform operation.

- It is important that IDA and the Borrower reach a common understanding as to the possible outcome of a Program. In the case of JSAC, IDA's perception that the jute industrial output could decrease substantially was different from that of the GOB's that total output would remain constant.

- Since a successful privatization program for public jute mills was central to JSAC, this issue should have been addressed in considerably more detail and approached from a broader perspective than that in the original Program design. To be successful in the privatization of technically non-attractive, money-losing state enterprises, such as jute mills in Bangladesh, the privatization effort should have been approached more innovatively than the standard open tendering system. This would have required an assessment of the privatization possibilities of the mills, and a detailed privatization strategy based on such assessment. It would have defined what could be expected under the program and also attracted a broader spectrum of private bidders.

- If temporary grant financing of loss making enterprises is considered as part of a reform program, these subsidies should be timebound and provided with ironclad commitments by entities willing and able to turn themselves around and become financially viable. Blanket subsidies applied without a clear focus on promoting economic efficiency tend to slow the adjustment process and increase supply-side distortions.

- In cases of significant downsizing of installed industrial capacity it is important to provide a social safety net for the benefit of displaced workers as was recognized under the Program. However, it is also important to consider ways to mitigate the adverse effects of the industrial restructuring on livelihood in the associated sectors -- e.g. farmers in the case of jute mill restructuring.

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PART I. PROJECT IMPLEMENTATION ASSESSMENT

A. Background

1. The JSAC or Credit 2567-BD to the People's Republic of Bangladesh for SDR175 million, was designed as a relatively fast disbursing balance of payment support operation, with the specific aim of providing financing for the GOB's structural adjustment program of the jute manufacturing industry (the Program). This Program is described in the Sector Policy Letter of the GOB dated December 23, 1993. The ultimate objective of the Program was to create a viable, essentially privately owned jute industry operating on normal commercial basis in a reformed policy environment. The GOB intended to complete the reform process by the end of 1996.

2. When the Program started, jute was the main cash crop and the basis for the largest industry in Bangladesh, providing employment opportunities for some 10% of the work force and accounting for 12% of GDP. Including processed jute products, the sector represented about 20% of Bangladesh export earnings. Jute from Bangladesh was also preponderant in the world market, where it represented three-quarters of total supplies of raw jute and one-half of manufactured jute goods. Furthermore, jute has a unique social and political weight in the Bangladeshi society, as it affects, directly or indirectly, the livelihood of some 25 million people through its impact in jute-related activities in agriculture, marketing, manufacturing and trade.

3. Since the early 1970s the demand for jute had been in a long-term decline in world markets, as the bulk handling of commodities evolved and synthetic substitutes for jute gained acceptance. This plus strong competition from India resulted in weak prices in the early nineties. Expectations then were for a further retrenchment and loss in the competitive position of the traditional products (sacking, hessian and carpet backing cloth) supplied by the Bangladeshi jute industry in world markets. The problems being faced by Bangladesh were compounded and to some extent caused by the dominant role played by the public sector in jute manufacturing. The Bangladesh Jute Mills Corporation (BJMC) operated 29 mills, accounting for about 64% of total jute manufacturing capacity. In addition, at the time the Program was designed the Government held a minority position of some 43% in the equity of the 35 operating private mills.

4. Under this rather complex scenario, the GOB embarked on a fast paced and ambitious program of reform. It tried to improve the efficiency of the jute mill industry and give it a competitive edge and a new ability to adjust to outside changes, so as to make of the Bangladeshi jute industry a dynamic force in world markets for years to come.

B. JSAC Objectives and Design

5. For Bangladesh, poverty alleviation is the overriding objective of development. Since about half of the population of the country is considered absolutely poor, rapid and labor-intensive growth is the *sine qua non* for reducing poverty. In this context, given the limited size of the Bangladeshi domestic market, a logical choice on which to base rapid industrial growth was to try to develop export-oriented sectors such as jute, one of the two leading agro-based activities. The Government at the time of Program design rightly endorsed economic liberalization in trade and investment, as a way of developing a vibrant and dynamic industrial sector led by the private sector. Besides, given the fiscal budget constraint, accelerated private investment in the industrial sector -- from both domestic and foreign sources -- was considered essential to create the needed jobs for the two million new entrants to the labor force faced each year.

6. Although a traditional product of Bangladesh, the decline shown by jute products in world markets, the pervasive presence of the public sector, as well as the excess capacity and low labor productivity that characterized the jute mill sector, prevented it from playing a leading role in the country's industrial revival envisaged for the nineties. In addition, years of government intervention and market distortions had resulted in a weakened group of private jute mills, which were far from ready and could not be expected to lead in any significant way the recovery of the sector. All this clearly limited the options of the GOB and favored the adoption of a strategy for the sector that initially had to rely heavily on structural adjustment. Confronted with heavy losses by public enterprises, and in particular its jute mills, the Government at the time saw retrenchment and privatization as the primary means for improving the fiscal accounts, so as to liberalize resources for the pressing social agenda. The other key ingredient for structural reform was the urgent need to take actions geared to clear the untenable debt overhang of the sector, so as to restore financial viability to both private and public jute mills alike. This was essential to give a fair chance to the privatization program to succeed.

7. Thus, at the time of appraisal, it was decided that JSAC would support the following program of specific reforms in the jute mill industry: (a) the elimination of excess capacity by closing and selling the assets of 9 out of 29 public mills and downsizing one large public mill; (b) the retrenchment of about 20,000 public mills employees; (c) the restructuring of some US$900 million of jute sector debt -- including debt-forgiveness, rescheduling and temporary operating subsidies; (d) the privatization of 19 of the remaining 20 operating public mills; (e) the implementation of a training program for workers and managers employed by jute mills; and (f) the closing and liquidation of the assets of the Bangladesh Jute Corporation (BJC), the state trading company. In addition, the GOB made a commitment to maintain a macroeconomic policy framework consistent with the Program, including wage policies in the jute sector aimed at restoring and then maintaining profitability in the industry. Also, the GOB agreed to promote legislation that introduced a mandatory retirement age for public sector workers.

8. To give the adjustment process a more comprehensive reach, the Program included other components that addressed a variety of related topics. Among them were the establishment of prudential guidelines to govern lending by banks to mills on purely commercial basis, the introduction of a package to compensate banks for some of the losses incurred in the debt workouts that benefited jute mills, and the implementation of a program to retrain mill employees laid off as a result of the retrenchment in the industry. All the reforms and actions under the Program were expected to take less than three years for their full implementation.

9. This was a complex Program of reform and quite demanding on the abilities of the Borrower. Further, the President's Report highlighted its politically very sensitive nature. However, given the importance of the jute industry, its state of deterioration and the urgency to remedy the situation, it was unrealistic to undertake a process of reform that did not address the issues being faced by the sector in a comprehensive and ambitious way. There were few options but to intent serious structural reform, so in this respect the objectives of the Program were realistic.

C. Achievement of Objectives

10. At the time of its closing, the ultimate objective of the JSAC Program had not been achieved. The industry's viability had not improved and during the three and a half years of actual program execution, public sector operating mills capacity registered a significant increase in its share. However, the policy environment for the jute industry improved: subsidies were eliminated, direct controls on operations were lifted, export quotas were eliminated, and wages in the private sector mills were delinked from those of public mills.

11. Concerning the specific actions associated with tranche conditionality, the GOB took initial important steps required under the first tranche, but did not comply with key necessary actions mainly related to privatization/closure of public mills required under the subsequent tranches. Substantial progress under the Program came as a result of the actions taken prior to JSAC's Board presentation, which justified the release of the first tranche following effectiveness. In this pre-Board stage, 4 public mills were closed and 1 downsized. In addition, 12,000 workers at public mills were retrenched. Most importantly, BJC, the largest money loser was closed under the Program, which was an achievement in itself. However, no other releases took place during implementation, as the GOB did not meet most of the conditionality associated with the other three tranches scheduled under the Program. The restructuring of debts was carried out for private and public mills during the implementation stage. Also, another 8,000 permanent workers in the public mills were retrenched. However, the GOB showed no results in the privatization front and little progress in the downsizing of the public presence in the industry. Indeed, the crucial test for the so-called "floating" tranche was to bring to the point of sale one public mill. This could have been achieved as early as the first quarter of 1995 had the GOB decided not to suspend the transfer of the Hafiz Textile Mills to the winning private bidder. For a variety of reasons, several other attempts by the Privatization Board to privatize mills failed, either because they did not generate active responses from private investors or there was unwillingness on the part of the GOB to accept any of the few offers made. As to the second tranche, the GOB was even further away from meeting the key actions required for its release. Prior to it the GOB was expected to carry out the closure of five more public mills, a substantial downsizing of the largest and inefficient Adamjee Jute Mills and the divestiture of at least nine additional public mills. The key action of the third tranche -- divestiture of nine more mills -- did not even have a chance to be discussed, given the lack of progress in meeting the conditionality for the prior two tranches. The key action under this last tranche, originally expected no later than mid-1996, would have reduced the mills operated by the public sector to only one, with at most 4,000 looms in capacity. Far from it, today BJMC is actively operating 26 mills with a total capacity of some 12,000 looms.

12. The Program brought about considerably more changes in the ways and culture of the privately operated mills. Today, much more financial discipline is observed in this private segment of the jute industry, which employs some 20,000 less workers than at the beginning of the Program. Although the private mills received proportionally less government grants and for a

shorter period of time to finance losses under the Program, it appears that there is now at least a small number of financially viable private mill operations.[1] Furthermore, in part because of the higher degree of financial discipline imposed by the Program on private mills, wages were successfully de-linked from those prevailing in BJMC mills. Currently, they are as much as 40 percent below those paid in the public mills. This is an achievement of the Program worth highlighting. Nonetheless, it is a matter of concern that today the production of private jute mills and their operating capacity has been reduced to only one fourth the total for the industry in Bangladesh. This constitutes a significant reversal from the levels observed at the initiation of the JSAC Program, when there was some 35 percent private participation, and is due primarily to the lack of decisive action on the privatization and capacity retrenchment fronts by the GOB. It should be pointed out that a retrenchment among traditional private mills was expected under the Program, given that most of them had been artificially sustained in the past by the "open tap" financial policy followed by the GOB. In fact, the gain in market share by the private sector under the Program was anticipated to result from the successful privatization of the best public mills.

13. Even as the agreed actions on debt forgiveness and rescheduling were met, it should be pointed out that today with a few exceptions, mills are not servicing regularly their reduced bank debt servicing burdens – which are roughly equivalent to some 33 percent of the debt servicing load prior to the mills' debt workouts. Although there are several factors behind the substandard quality of the jute mill debts with local banks, the fact remains that practically all public mills and most of those privately run still face financial non-viability today[2]. This becomes even more evident once the high labor severance liabilities --which are contingent liabilities-- and the direct debts with the GOB, are taken into account. Furthermore, the *economic* viability of a large portion of the jute mill industry -- some 60 operating mills in total -- is an open question, as years of neglect have deteriorated the production process in the mills, while world demand for its traditional products stagnates. Thus, currently only a minority of the jute mills in Bangladesh has a positive operational cash flow. All this delineates a picture for the sector today that is far from that of "a viable and essentially privately-owned jute mill industry", which was originally envisioned to prevail at the time of the closing of JSAC. In addition, banks that participated in the debt restructuring have suffered by the insufficient Government compliance with the implementation of its financial commitments under the Program. At the end, these banks had to assume a larger financial burden as compensating bonds received from the Borrower were not issued timely and their interest rate was not set at the levels originally agreed.

D. Major Factors Affecting the Program

14. When assessing the risks likely to jeopardize a successful implementation of this sectoral adjustment program, the President's Report clearly identified as a potentially main obstacle the

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[1] However, a note of caution is in order since private mills owe the GOB huge amounts of direct debt, which up to now has been treated as subordinated obligations. If the GOB insists on collecting due service payments associated with these old credits, then the financial viability of the best private mills also will become questionable.

[2] In the comprehensive jute manufacturing study (JUMS) carried out by the GOB to set the foundations for its proposed reform of the jute mill industry, only 3% to 4% of the outstanding debt of the mills was found to be sustainable under the "Optimal Performance Improvement" scenario. The actual scope of the debt restructuring under the Program was more modest, as it was based on more optimistic demand projections and as the GOB had to face the realities of the fiscal budget constraint. Also central to the future viability of the jute mill industry according to JUMS was the implementation of a balancing, modernization and rehabilitation (BRM) program in FY 1994-95, to rehabilitate the badly run-down equipment in the mills to be retained and transferred to the private sector. This BRM program estimated to cost in the range of US$100 million was not part of JSAC.

political difficulty of sustaining the momentum for reform in the jute mill industry. Several safeguards were put in place, including a long list of 17 pre-conditions for Board presentation, such as the closure of four unprofitable mills and the reduction of at least 12,000 excess mill workers. All this constituted a strong argument to the IDA staff of the GOB's ability to move forward with the proposed wide-ranging reform. Unfortunately, following effectiveness of JSAC, the GOB's political will and commitment to carry out the implementation of the Program started to rapidly disappear. The political problems faced by the Program were compounded by the general climate of civil unrest and disturbance in the country that started to materialize late in 1994 and that did not subside until 1996. When the political opposition took over the Government in mid 1996, following the long period of political turmoil, they were not able either to master the necessary political will or reach the broad political consensus to carry the Program forward. This was the case despite a broadly based understanding with IDA on a new timetable for implementation, which was reached during the Mid-term review of July 1996.

15. But the lack of decisive implementation drive was not limited to the politically difficult tasks. Indeed, many of the easier actions included in the Program were not addressed either. Thus, in hindsight, it can be argued that central to the failure of the reform process was the poor internalization of the Program at the highest levels of decision making in Bangladesh. Although the GOB duly negotiated the DCA and agreed on each of the specific actions to be taken under the Program, the perception is that at the moment of implementation the Administration felt that these actions, some of them politically difficult, were not on its priority list. This was particularly evident when the moment came to divest mills or close the most inefficient ones or those that did not find private sector takers. This lack of political will could have been damaging to any IDA program, but it was particularly harmful to the reform of the jute sector. This reform had far reaching social, political and economic implications, thus requiring the full and permanent attention at the highest levels of decision making in the GOB. The Program supported by JSAC was and still is the largest single IDA operation ever approved for Bangladesh.

16. Although the design of the JSAC Program addressed all major relevant issues, it could have been improved in some areas. What is not entirely clear is whether this could necessarily have increased the chances of an improved implementation. Indeed, in the absence of decisive political will and commitment on the part of the GOB to carry out the reforms, this could have easily resulted in a disappointing implementation independently of the quality of the final Program design. Yet, had IDA insisted in keeping some of the original, pre-negotiation conditionality and design -- in particular concerning the less generous loss financing subsidies for public mills which initially were equal to those for private mills --, the GOB would have had to face more clearly its own commitment to the jute sector reform, including the option to go ahead without the support provided by JSAC. At least under this scenario IDA would have been able to avoid being perceived by the private mill owners as endorsing a Program detrimental to their own survival.[3]

[3] In August 1996, Bangladesh's private jute mill owners filed a request with the Inspection Panel asking it to report and recommend on their claim that the jute private sector had been harmed rather than helped through some flows in the design of the Program and its 3-year delayed implementation. As a result the Requesters felt that the private jute sector was now worse off than before the JSAC. The Panel concluded that the Requesters appeared to have suffered material adverse effects during the Program's execution. Also, the Panel was not satisfied that IDA's Management complied with all policies during the design and implementation of the JSAC. However, it was not in favor of recommending that the Executive Directors authorize an investigation into violations of IDA policies and procedures. Basically, the Panel thought that the closing of the operation without a new approach in place would presumably meet none of the Requesters' expectations from the reform process. Similarly, it felt that an extension of JSAC's Closing Date without revisiting basic design concepts with the GOB and the Requesters might not be an adequate course either. Continued close supervision --including any extension period of the Program-- with regard to financial

17. Prior to and during Program preparation, a significant amount of time and resources were spent assessing the state of the jute mill industry and the requirements for its rehabilitation to productive and financial health[4]. From this analysis it became clear that the JSAC operation was highly risky even on technical and financial grounds[5]. Although the projections showed that the jute mill industry in Bangladesh was potentially viable, the margin of viability was narrow. This was so even if a comprehensive program of reform was carried out and flexibility in the exchange rate and prudence in the wage policy was maintained. It was foreseen that restoration of profitability to the jute mills required a new inflow of private entrepreneurship, able to restore commercial discipline in a sector that had been accustomed to political patronage rather than competitive pressures. Furthermore, measures to substantially improve labor productivity and bring about cost reductions were perceived as likely to result in a strong opposition from traditionally strong labor unions, which also were heavily entangled with the day-to-day political process –an involvement strong up to this day. In addition, profitability of individual mills depended on the success of the Program to significantly reduce excess loom capacity. Otherwise, given weak world demand for manufactured jute products, average capacity utilization in the industry would have remained too low and there would have not been scope for fresh capital investments in the sector in Bangladesh. This would have made it extremely difficult for even the most efficient mills to become profitable. IDA's position was that the privatization program should be subject to the market test, and that given the above factors a possible outcome could be substantial capacity retrenchment. On the other hand, the GOB agreed to go ahead with the privatization program based on the expectation that there would be substantial interest by investors and the new owners would continue to operate the mills as such. The initial results of the tenders and the discussions between the bidders and the GOB showed that only a few investors were interested in bidding and that their intention was to use the properties for other uses. These results discouraged further the GOB about going ahead with the Program.

18. The Program should have concentrated more effort on making an assessment of the potential for privatizing the public jute mills and designing the privatization strategy accordingly. It should also have concentrated in making sure that the GOB had in place an adequate privatization infrastructure and the jute mill privatization program in place prior to attempting the massive privatization of the mills. A related technical assistance operation provided sufficient resources to properly support the staffing and operation of the Privatization Board, but in retrospect this clearly was not enough. During most of the implementation period there was little political and technical leadership at the Board level, while the consulting work hired to assist with the privatization process was unsatisfactory. Another factor that slowed down the privatization efforts was the fact that at the time of Program design it was not yet possible for IDA to finance

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discipline was thought by the Panel as having at least the virtue of meeting some of the Requesters' concerns. In this context, the Panel thought that an investigation would have served no useful purpose.

[4] JUMS was initiated by the Ministry of Jute under EEC funding to prepare a comprehensive action plan to restructure the jute industry in Bangladesh. IDA assisted the Ministry if Jute in an advisory capacity in designing and monitoring the study. In addition, IDA carried out its own research to enrich the knowledge about the sector on those areas where JUMS was weak (e.g., export marketing, retrenchment of excess workers, financial restructuring, and restructuring of BJC).

[5] The IDA staff recognized from the outset that the jute industry might not be viable. However, it thought that JSAC would still be justified, if under JSAC losses of the industry were substantially reduced, subsidies were made explicit, damage of the industry on the financial sector was eliminated, and the industry was downsized in an orderly way. In retrospect, little of this was accomplished under the Program and the viability of the industry remains to be established.

directly labor retrenchment. The lack of such mechanism made it difficult for the Ministry of Jute to obtain timely funding for the retrenchment of jute mill workers. In addition, the Program underestimated the magnitude of labor-related problems and the volume of financial resources demanded to conduct proper mill workouts. Perhaps the Program design could have made sure of including specific wording in the DCA on the need to maintain a satisfactorily financed and adequately staffed Privatization Board at all times. In addition, the Program could have benefited from a special purpose fund available for carrying out the expensive and complex workouts required prior to attempting viable privatization efforts of public mills (e.g., for severance payments, recapitalization of state credits, etc.). All this is likely to have required the adoption of a more detailed blueprint for mill privatization in the design of the Program.

19. Another component of the Program that should have been improved when negotiating the Program was the one dealing with debt restructuring and grant financing of the mills' temporary losses. First, the efforts in this area made possible by the GOB support of domestic banks appear to have been insufficient to restore financial viability to the mills. Second, the financial incentives provided by the Government to temporarily grant finance operational losses gave in practice the wrong set of signals. The interim loss financing arrangements for public mills were substantially higher than for private mills, because the purpose was different. The objective of the loss financing for public mills was to support the orderly contraction of capacity under public ownership and avoid their further deterioration prior to privatization. In the case of private mills the objective was to assist in their rehabilitation as a joint responsibility between the GOB and the mill owners. However, such arrangement created a non-level playing field unfavorable to private mills. Also, from today's perspective, the interim financing for public mills could have included a more discriminating mechanism to select those mills that were most likely to succeed and forced a more severe adjustment among the most inefficient and biggest money losers. Instead, it adopted a formula to allocate grants that clearly favored those public mills that had the largest relative losses to start with creating a disincentive for their closure.

20. The Program rightly identified the need to include a social safety net for the benefit of displaced workers that included a severance package and retraining courses to facilitate reemployment. However, in retrospect, the Program could have included a more comprehensive analysis of the potential social costs of the adjustment in the jute industry and probably more importantly for farmers in the countryside. For example, the impact on the farmers of the transformations in the jute industry was largely ignored by the Program, an issue that was raised constantly by the GOB as a major impediment to carry out implementation according to the scheduled timetable. Also, the experience with the Hafiz Textile Mills, targeted for privatization in connection with the floating tranche, shows that a "golden handshake", more generous than the legal two months of basic wages for every year in service, covering all workers and not only those to be retrenched, was necessary to make a divestiture of this mill acceptable to its employees. In practice, the task of retrenching workers in public mills was much more difficult to accomplish and its budgetary impact much steeper than originally projected.

21. The retraining of separated workers was another issue that perhaps could have been addressed in the more general context of a program covering all state enterprises. In the case of the Program, the two-week retraining course received by each of those retrenched had a cost equivalent to some seven months worth of wages, which in retrospect was excessive for the benefits received by the retrained workers. This retraining program was to some extent of a pilot nature and covered about 8,000 workers or about half of the initially targeted number. Given the permanent need of retraining in a country like Bangladesh, which urgently requires to develop a more skilled and

diversified labor force, the retraining of public sector employees appears to be better addressed in the context of a permanent and cost-effective program designed to this effect.

E. IDA's Performance

22. From the narrower perspective of IDA performance, the identification made by the staff was good since it covered all factors responsible for deterioration of the jute industry in Bangladesh, as identified under an IDA study on Jute Sector Reform (para. 17). These were the: (a) negative impact on jute mills of declining world demand and weak prices; (b) dominant role of the public sector in jute manufacturing, marketing and trading; (c) negative effect of government intervention on public and private mills through export rationing, wage increases, export and interest subsidies and bans on private mill closures; (d) distressed financial situation of public and private mills resulting from the combination of the above factors; and (e) system of mandatory credit that affected adversely the commercial banks and insulated the mills from the mounting financial pressures (MOP, paras. 55-58).

23. Concerning project design, the diagnostic made by IDA was translated into a comprehensive package of specific reforms that formed part of JSAC conditionality. These reforms, which addressed in detail the issues raised during the diagnostic work, included (para. 7): (a) raw jute trade liberalization through the closure of BJC; (b) capacity rationalization through jute mill closures; (c) improved governance by increasing private participation in the sector under the privatization program and elimination of government intervention; (d) cost reduction by restructuring the debt of private and public mills and reducing the labor force in public mills; (e) improved financial discipline by establishing a system of declining subsidies and eliminating mandatory credit; and (f) alignment of factor and product markets by delinking wages in the private mills from those of public mills and freezing wages in public mills. In spite of the in-depth coverage under the JSAC, improvements could have been made in two of these areas. The first one concerns the privatization program. IDA could have made a more thorough analysis of the privatization potential of the public mills permitting the design of a more realistic program (para. 18). It should be mentioned that the program design provided the flexibility to adjust the program during implementation. It was for this purpose that a floating tranche under the program had the objective of testing whether the tender conditions were appropriate, so that these could be modified for the remaining tenders. However, some limitations would have occurred under this mechanism, since modifying the tenders may have required to obtain additional funds as in the case of requiring further labor retrenchment or additional debt restructuring. Another issue, was the difference in perception between IDA and the GOB concerning the size of the industry that may have resulted after completion of the Program (para. 17). IDA correctly considered that the ultimate size of the industry should be determined by the market and that a reduction in total output was a possible outcome. The GOB agreed to the Program with the more optimistic perception that the total output of the jute industry would at least remain constant. They were not ready to accept the closure of most public mills or their use for other purposes, as would have been the case if they would have gone ahead with the privatization process (the few private investors that participated in the tenders were mainly interested in the land properties and not in the jute mills which would have been closed in their majority). The second area concerns the loss financing component. Although higher subsidies provided to public mills than private mills were intended to bring the former in working conditions to the point of privatization, their unintended effect was to create an uneven playing field between public and private mills, which resulted in a reduction of the share of the private sector in the jute industry (para. 12). In addition a more selective mechanism could have been established for subsidies to the public mills in order to avoid encouraging the worse

performing mills to continue operations (para. 19).

24. As to IDA's decision to go ahead with the program, this was based in its strong commitment to support the GOB's agenda of structural reforms with the objective of ensuring macroeconomic stability and shifting toward a market-determined externally oriented economy. The JSAC formed part of a number of adjustment operations covering: fiscal reform (PRMAC), financial sector reform (FSAC), trade liberalization (ISAC II), and reduction of the Government role in industry (JSAC) (MOP, paras.52-54). IDA recognized the risk that JSAC may fail due to the considerable political difficulties that the GOB would face in sustaining its initial reform efforts (MOP, para. 110), but considered that the benefits associated with a successful outcome justified its strong support (MOP, para. 112). To reduce this risk IDA frontloaded the loan conditionality prior to Board presentation. It also included a floating tranche designed to encourage and test the commitment of the authorities to implement the privatization program and test their willingness to adapt the conditions of sale of the jute mills to make these attractive to the private sector. Furthermore, disbursements under the second and third tranches were to be made subject to concrete results, which included the privatization/closure of the public mills as main conditions.

25. As to IDA's performance during implementation, the agreed program design and the political environment in Bangladesh largely determined this. Perhaps a more decisive stand should have been taken by IDA on an early cancellation of the Program once it became clear by mid-1995 that the political climate and lack of will by the GOB made the implementation of the Program unlikely. After the political climate deteriorated further in early 1995, supervision missions from headquarters were halted, but discussions between the Finance Minister and IDA management continued to take place, concluding with the desirability of maintaining the Program with the expectation that implementation would continue once the situation improved. Also, close contacts and dialog with Government officials were maintained through the Resident Mission, which spent a significant amount of time doing a continuous follow up of this important program of reform.

26. Then, after the arrival of the current Administration in mid-1996, supervision missions were immediately reactivated and efforts were made to reach a revised implementation schedule with the GOB in the context of the Program's Mid-term Review. The relatively large amount of staff/weeks dedicated to supervision during this period illustrates the significant efforts made to rescue the Program. IDA saw the Mid-term Review as a test of the political will and commitment to the reform of the sector by the incoming Administration. By September 1996 an action plan was in place that, given the poor implementation record up to then, emphasized decisive up-front actions by the GOB on the privatization and mill closing fronts. Thus, an agreement was reached on a revised implementation schedule with emphasis on decisive up-front actions in these two areas as well as on the disposal of redundant assets and the strengthening of the privatization program. These actions were pre-conditions to recommend to IDA management the extension of JSAC beyond December 1996 –and which the GOB requested to be for two additional years. The actions taken by the new Administration prior to the original Closing Date felt short of what was required but indicated willingness to move ahead with the Program –mainly through renewed, but failed, efforts to sell mills to the private sector. Thus, IDA accepted a six-month extension to give more time to the new Administration to act on the agreed up-front actions. However, when no substantive progress was achieved again during the six-month extension period, IDA decided to close JSAC on the revised scheduled date of June 30, 1997.

27. In retrospect, the point to be raised is whether IDA should have extended the Program or should have acted to cancel JSAC much earlier. Similarly, it could be argued that perhaps at the

time of the Mid-term Review an in-depth review of the Matrix of Policy Actions should also have been attempted with a view of changing the Program's conditions and design. After all, there were practically no chances of meeting the list of actions required for the second and third tranches and it was apparent at that time that a major revision of the developmental strategy for the sector was required. JSAC's cancellation would have been quite drastic in particular in view that the new Administration had indicated its willingness to go ahead with the Program.. On balance and with today's hindsight, it appears that the decision by IDA management of not canceling JSAC, but insisting on up-front conditions in the Mid-term Review was correct. From IDA's viewpoint there was also little advantage in arriving at an elaborate new Program design, unless the GOB would be able to gather the necessary political momentum to take the initial steps on the long road towards meaningful sector reform. Thus, on balance, implementation by IDA was carried out satisfactorily, given the constraints faced during this stage.

F. Borrower's Performance

28. From the perspective of the Ministry of Jute, IDA's government counterpart and the Program's executing agency, JSAC was a difficult and complex operation. It must be acknowledged that the Borrower implemented difficult measures at the beginning of the Program, but had difficulties in maintaining momentum of the reform. It indicated its difficulties to gather support for a Program that had the potential to cause large-scale unemployment and to unbalance the economy, not only in the jute industry but also in the socially crucial agricultural sector. Confronted with the options of a rapid privatization of public mills or close them down, it felt that the Program really implied to do away with jute and the jute industry. This feeling was enhanced by the perception that the private sector was not in a financial position to take over the jute mills that BJMC was supposed to divest. At the end, the choice of the GOB was always in favor of maintaining the production capacity of the jute industry, even at the cost of new subsidies. It was accepted that from the beginning of the industry in the early fifties this was dependent on artificial measures and subsidies from the GOB. In summary, the prevailing view among those in the GOB most closely involved with Program implementation was that the jute industry was to continue operating at the same levels for both political and social reasons. Given the uncertainty associated with the outcome of the Program and the high political risks involved, the tendency in both Administrations that participated in the implementation of JSAC, was to muddle through the best they could. They were quite conscious of the desirability to reform the sector and reduce its losses, but quite unable to come up with alternative plans to reconcile the conflicting interests of financial viability with the maintenance of traditional levels of employment and production in the sector.

29. From the point of the Borrower, the outcome of these dilemmas clearly translated into political paralysis and lack of political will to move forward with the actions agreed in the context of the DCA. With today's hindsight, it is not surprising then that the GOB implementation performance was highly unsatisfactory. Table 7, which gives a detailed list of those actions that were expected to be taken under the Program, shows the high degree of non-compliance with it. Also discouraging was the GOB unwillingness or inability to even carry out some actions that did not involve a great deal of political courage, such as the privatization of one mill required as part of the floating tranche conditionality or the divestiture of assets and liquidation of BJC. The poor implementation record under JSAC also contrasts greatly with the genuine efforts made by the GOB to gather information and prepare the program of reform for the jute industry, and which culminated with the decisive actions taken prior to Board presentation. All this points in the direction that the problems encountered during implementation went beyond an absence of political will, involving also institutional and technical deficiencies in the implementation effort. This

favors the view that with a stronger commitment by the Borrower much more progress could have been achieved under JSAC towards the recovery of the jute mill industry in Bangladesh.

G. Assessment of Outcome and Program Sustainability

30. The outcome of the Program is highly unsatisfactory as this failed to achieve any of its major objectives and it is not expected to yield worthwhile developmental results. However, there were some accomplishments under the Program, as illustrated by the meeting of the pre-Board conditionality and, during implementation, the bank debt restructuring, the training of over 16,000 mill workers, and the introduction of a mandatory retirement age of 65 years for all public employees. Also, there was a moderate improvement in the financial discipline of the sector, as state banks started to provide financing to private and public mills on the basis of bank to client relationship and at market rates. Some of these gains, however, are far from being irreversible and still depend on the political will of the Administration. This is illustrated by the recent surge in temporary and permanent new positions in public mills, and which are in clear conflict with a spirit of reform in these state enterprises. Also, there is a well-founded concern that the lack of progress in reducing losses in the jute sector will continue to expose the GOB to heavy political and social pressures to resume subsidization of public and private mills through the commercial banking system. This would reverse one of the few accomplishments of the Program, such as the introduction of market practices and a higher degree of financial discipline in the relationship between jute mills and their bankers.[6]

31. Given the lack of progress in advancing on the agreed actions during the implementation stage, little sustainability can be expected to be derived from the Program. Since the major objectives were not attained, there are just but a few achievements to be maintained. Rather, the future of the jute mill industry remains plagued with uncertainties about its viability; and this is likely to stay operating in the short and medium-run solely by extracting additional government support and the application of arbitrary policy measures. Without this it is likely to enter into a financial crisis that could have important social and political repercussions, not to mention the negative impact on the public banking system, a major creditor of the industry and which today presents clear signs of financial distress. It remains crucial and urgent that the GOB persists in defining and executing a comprehensive program for a sustainable rehabilitation of the jute industry based on market policies and focused on a dominant participation by the private sector. However, at this stage of deterioration in the jute mill industry, it is essential to start by re-assessing carefully the real potential and viability of existing capacity and of the industry in general. This could end up being a sobering exercise for the GOB, but it is likely to provide solid underpinnings and realistic basis to any new rehabilitation attempt of the industry.[7]

H. Key Lessons Learned

32. Several lessons can be derived from the JSAC Program. Some of them already have been suggested in the course of earlier text. The purpose of this section is to highlight some of the key lessons that can be helpful in future IDA operations in Bangladesh or, more generally, in future work in the area of industrial policy reform and privatization.

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[6] In fact, the GOB recently provided one billion taka to BJMC to buy raw jute, a financial support that can be justified on purely social and political basis, since this company currently is not creditworthy.

[7] Although IDA is not currently considering further financial support to reform the jute industry, it is prepared, at the GOB's request, to continue providing policy advice in this area..

33. Political commitment by the borrower and its internalization of the program of reform. This is clearly the necessary condition for successful credits or any other type of IDA operations. The lesson here is that no matter how consistent and rational a program of reform is, its final outcome requires the total commitment of the borrower and, in particular, of the involved government agencies. In this respect, perhaps more progress could have been made with a more careful selection of the executing agencies (e.g., Ministry of Finance instead of Ministry of Jute). Also, a proper institutional setup for Program implementation should be in place prior to its effectiveness (this would have been desirable in the case of the Privatization Board).

34. IDA and the Borrower should Reach a Common Understanding about the Possible Program Outcome. A common ground as to the possible outcome of a Program is important to diminish the possibility that implementation would be stopped. In the case of JSAC, the GOB's political difficulties in implementing the Program became compounded with its apprehension that the size of the industry may shrink, which it had not contemplated initially when agreeing to the Program.

35. The privatization of public enterprises requires the design of an elaborate plan. Since a successful privatization program for public jute mills was central to JSAC, this issue should have been addressed in considerably more detail and approached from a broader perspective than that in the original Program design. To be successful in the privatization of technically non-attractive, money-losing state enterprises, such as jute mills in Bangladesh, the privatization effort should have been approached more innovatively than the standard open tendering system. This would have required an assessment of the privatization possibilities of the mills, and a detailed privatization strategy based on such assessment. It would have defined what could be expected under the Program and also attract a broader spectrum of bidders, since these were largely absent in the innumerable bidding attempts of public mills by the GOB.

36. Transitional financing of loss making enterprises requires careful targeting. The experience of the Program on the temporary grant financing of jute mill losses illustrates the need to provide resources to those entities that show willingness and ability to turn themselves around and become financially viable. In the Program, although the rationale for the subsidies to public mills was to keep these in operation until their time of privatization or closure, the levels provided also created a disincentive for these mills to increase efficiency and reduced the pressure on the Government to go ahead with their privatization or closure. The GOB incurred heavy losses under the Program that will not be recovered and that could have been better used in supporting other needs related to the industry's recovery, such as the provision of financial support to cover large labor severance payments associated with privatization. The lesson here is that subsidy schemes applied without a clear focus on promoting economic efficiency tend to slow the adjustment process and increase supply-side distortions.

37. The social safety net program for retrenched public workers should have an economy wide coverage. In cases of significant downsizing of installed industrial capacity, it is important to provide a social safety net for the benefit of displaced workers as was recognized under the Program. However, it is also important to consider ways to mitigate the adverse effects of the industrial restructuring on the livelihood in the associated sectors, e.g. farmers in the case of jute mill restructuring.

IMPLEMENTATION COMPLETION REPORT

BANGLADESH

JUTE SECTOR ADJUSTMENT CREDIT
(Credit 2567-BD)

Part II.: STATISTICAL TABLES

Table 1: Summary of Assessments

A. Achievement of Objectives	Substantial (✓)	Partial (✓)	Negligible (✓)	Not applicable (✓)
Macro Policies	☐	☐	☑	☐
Sector Policies	☐	☐	☑	☐
Financial Objectives	☐	☐	☑	☐
Institutional Development	☐	☑	☐	☐
Physical Objectives	☐	☑	☐	☐
Poverty Reduction	☐	☐	☐	☑
Gender Issues	☐	☐	☐	☑
Other Social Objectives	☐	☑	☐	☐
Environmental Objectives	☐	☐	☐	☑
Public Sector Management	☐	☐	☑	☐
Private Sector Development	☐	☐	☑	☐
Other (specify)	☐	☐	☐	☐

B. Project Sustainability	Likely (✓)	Unlikely (✓)	Uncertain (✓)
	☐	☑	☐

(Continued)

C. Bank Performance	Highly satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Identification	☐	☑	☐
Preparation Assistance	☐	☑	☐
Appraisal	☐	☑[8]	☐
Supervision	☐	☑	☐

D. Borrower Performance	Highly satisfactory (✓)	Satisfactory (✓)	Deficient (✓)
Preparation	☐	☑	☐
Implementation	☐	☐	☑
Covenant Compliance	☐	☐	☑
Operation (if applicable)	☐	☐	☐

E. Assessment of Outcome	Highly satisfactory (✓)	Satisfactory (✓)	Unsatisfactory (✓)	Highly unsatisfactory (✓)
	☐	☐	☐	☑

[8] Appraisal is considered marginally satisfactory due to: (a) the failure in reaching a clear understanding with the Government about the possible outcomes of the program concerning the final size of the industry; (b) the lack of a strategy to address the reform's potential negative effect on farmers.

Table 2: Related IDA Credits

Loan/credit title	Purpose	Year of approval	Status
Preceding operations			
1. Jute Industry Rehabilitation (Cr. 1032-BD)	To increase efficiency and organizational structure of the jute industry.	May 1980	Closed June 1986
2. Industrial Sector Adjustment Credit (Cr. 1816-BD)	Policy and institutional changes to boost exports, improve SOEs and begin financial sector reform.	June 1987	Closed in May 1989
3. Sixth Technical Assistance Credit (Cr. 2393 BD)	Strengthening capacity in various areas of governance.	July 1992	On-going
4. Second Industrial Sector Adjustment Credit (Cr. 2427-BD)	Further trade policy reform, export promotion, and deregulation to promote private sector development.	October 1992	Closed December 1994
Following operations			
None			

Table 3: JSAC Timetable

Steps in Project Cycle	Actual Date
Identification (Executive Project Summary)	Mar/Apr. 1991
Preparation	May 91 - Oct. 92
Appraisal	Nov/Dec. 1992 (first) Feb/Mar. 1993 (second)
Negotiations (in two stages)	July 1993, Nov/Dec. 1993
Letter of Development Policy	Dec. 23, 1993
Board Presentation	Feb. 17, 1994
Signing	Feb. 25, 1994
Effectiveness	Apr. 5, 1994
First Tranche Release	Sept. 14, 1994
Midterm review	Jul/Aug 1996
Second Tranche Release	Canceled
Third Tranche Release	Canceled
Project Completion	Jun. 30, 1997
Credit Closing	Jun. 30, 1997

Table 4: JSAC Disbursements: Cumulative Estimated and Actual
(SDR million)

	FY94	FY95	FY96	FY97
Appraisal Estimate	35.00	125.00	125.00	175.00
Actual	0.00	37.41	37.41	37.41
Actual as % of Estimate	0	30%	30%	21%
Date of Final Disbursement	March 2, 1995			

Table 5: Dates of Tranche Disbursement

Tranche	Date
First	March 2, 1995
Floating	not released
Second	not released
Third	not released

Table 6: Program Financing

Source	Appraisal Estimate (US$M)	Actual/Latest Estimate(US$M)
IBRD/IDA	247.0	49.4
IDA Reflows	0.0	3.3
Domestic Contribution	n.a.	n.a.
TOTAL *	247.0	52.7

n.a.= not available
* = excluding domestic contribution

Table 7: Status of Legal Covenants and Conditionality

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
1.01 (b)	General condition	Not later than 6/30/97		?	Not later than 6 months after the Closing Date, the Borrower shall prepare and furnish IDA an evaluation report on the execution of the Program.	The actual Closing Date of JSAC was June 30, 1997. Initially, JSAC was scheduled to close at year-end 1996. The report furnished by the GOB has been included in the Appendix of this ICR as the contribution of the Borrower.
3.01 (a)	Project implementation			C	The Borrower shall furnish IDA a report on the progress achieved in carrying out the Program prior to each exchange of views carried out from time to time.	Several of these reports prepared by the GOB are in the IDA's files at Headquarters.
3.03 (b)	Accounts/audits			CD	The Borrower shall furnish IDA, not later than 9 months after the end of each fiscal year, certified copies of audited reports in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to IDA.	Copies of these audited reports are in the IDA files at Headquarters. The last one, for FY 1996, was supplied in June 1997. There is still one report pending on the Program, for FY 1997, which is due by March 31, 1998.
FLOATING TRANCHE						
Schedule 1.4 (B) (i)	Macroeconomic policy conditionality	3/31/95			Macroeconomic policy framework of the Borrower is consistent with the Program.	There was no formal evaluation of this since the Borrower did not take sector specific actions required prior to the release of this tranche.
Schedule 1.4 (B) (ii)	Sectoral policy conditionalty	3/31/95		NC	Satisfactory progress in carrying out the Program.	The floating tranche was never disbursed, in part because IDA considered that progress in carrying out the Program was not satisfactory.
Schedule 5.1 (a)	Sector policy conditionality	12/31/94		CP	The Borrower has offer for sale to the private sector a public jute mill under terms and conditions satisfactory to IDA and taken all such measures as may be necessary for purposes of implementing such sale transaction.	In February 1995, the GOB tendered four jute mills for sale. It received an offer for Hafiz Textile Mills which met all conditions, but it decided to suspend the transfer. Until the Closing Date, the GOB was still negotiating with the winning bidder the terms and conditions for the completion of the sale. One problem was erroneous information in bidding documents.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 5.1 (b)	Sector policy conditionality	3/30/95		CP	The Borrower, where no tenders are received or those received are not responsive, has revised the terms and conditions of such offer; and taken adequate steps to make such mill attractive for privatization.	There were several additional attempts by the Privatization Board to privatize mills, which in most cases generated scarce response from private parties. Moreover, the GOB decided not to accept any of the offers made.
Schedule 5.2	Sector policy conditionality	12/31/94	8/31/96	C	The Borrower has ensured that PBs have concluded satisfactory arrangements, for restructuring the debt owed to them by the public jute mill referred to in Schedule 5.1 (a).	Debt restructuring was implemented for all public mills.
Schedule 5.3	Sector policy conditionality	3/31/95		CP	The Borrower has compensated PBs, in accordance with satisfactory criteria for the restructuring of the debt of public jute mill, pursuant to Schedule 5.2, through the issuance of bonds.	Condition met for private banks, but not for public banks, which still are to be compensated adequately, according to the GOB's own guidelines, for the debt write-offs they undertook.
Schedule 5.4 (a)	Sector policy conditionality	3/31/95		C	The Borrower has ensured that working capital requirements and operational losses of the public jute mill referred to in Schedule 5.1 are not financed by PBs except according to agreed timetable and amounts.	All mills, public and private, received interim grant financing, which allowed them to continue to operate despite heavy losses. In the specific case of Hafiz Textile Mills, the formal test of whether the GOB adhered to the methodology agreed with IDA was supposed to be conducted prior to the floating tranche release, which never took place. However, by and large, the agreed actions were met.
Schedule 5.4 (b)	Sector policy conditionality	3/31/95		C	The Borrower has ensured that except as provided in Schedule 5.4 (a), no additional financial support is made available to cover operational losses of the public jute mill referred to in Schedule 5.1.	By and large, this action was satisfactorily met, although a formal review was scheduled to take place prior to the time of tranche release, which never came.
Schedule 5.4 (c)	Sector policy conditionality	3/31/95		CP	The Borrower has fully reimbursed the PBs for their interim financing of the operational losses of the public jute mill referred in Schedule 5.1, in accordance with Schedule 5.4 (a).	The GOB implemented this action to a large extent, although there are still some bonds that have not been issued by the GOB in connection with the agreed compensation scheme for the interim financing provided by PBs.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 5.5	Sector policy conditionality	3/31/95		NC	The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to IDA with the objective of restoring and maintaining profitability in this industry.	The public mills wage policies of the GOB continued to be dictated by the general wage policy for public employees, which was considerably more generous than the agreed policy of refraining from nominal wage increases in the jute industry until the viability of the mills was restored.

SECOND TRANCHE						
Schedule 1.4 (A) (i)	Macroeconomic policy conditionality	3/31/95			Macroeconomic policy framework of the Borrower is consistent with the Program	There was no formal evaluation of this since the Borrower did not take other actions required prior to the release of this tranche.
Schedule 1.4 (A) (ii)	Sectoral policy action	3/31/95		NC	Satisfactory progress in carrying out the Program.	The second tranche was never released as many of the actions required for this were not completed by the GOB. Nonetheless, IDA considered that overall progress in carrying out the program was unsatisfactory.
Schedule 3.1 (a)	Sectoral policy action	6/30/94		CP	The Borrower has disposed of the equipment of public mills closed and/or downsized under the program.	There was some progress in selling closed mill assets. Purbachal Jute Mills was sold to a foreign investor, which bought the facilities to produce yarn with newly imported equipment. The other three public jute mills closed under the Program still have not been sold, in part due to pending litigation.
Schedule 3.1 (b)	Sectoral policy action	6/30/94		NC	The Borrower has reduced loom capacity in public jute mills by at least 2,700 looms through the closure or tendering (followed by closure if unsuccessful) of at least 5 mills and substantially downsizing at least one mill.	BJMC did not close any mills in addition to the four mills closed prior to the Board presentation of JSAC. Moreover, there was no substantial downsizing of other public mills. Most of the reduction in public sector loomage capacity, from the initial 16,000 looms to 12,000 looms at the closing of the Program, was achieved with the initial closure of the four mills.
Schedule 3.2 (a)	Sectoral policy action	6/30/94		CP	The Borrower has reduced the number of permanent employees in the public jute mills by about 8,000.	Although the number of permanent workers at the public jute mills was initially reduced by some 20,000 following Board approval, in FY1996-97 permanent workers increased significantly once again. BJMC also hired a substantial number of temporary workers to replace those permanent workers that left. By the closing date, the total labor force of BJMC remained unchanged at the level of some 86,500 workers it had in FY1993-94, although some 8,300 workers at BJMC held temporary positions.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 3.2 (b)	Sectoral policy action	3/31/95	1995	C	The Borrower has introduced mandatory retirement age for workers in the public sector.	A new mandatory retirement age of 60 years was approved by the Parliament.
Schedule 3.3 (a)	Sectoral policy action	3/31/95	1994	C	The Borrower has ensured that PBs have forgiven and written off 30% of the debt owed to them by BJC.	PBs wrote off 30% of the due amount in 1994. Private banks were compensated with bonds by the GOB.
Schedule 3.3 (b)	Sectoral policy action	6/30/94	1994	C	The Borrower has fully discharged, on behalf of BJC, its remaining outstanding debt obligations to PBs and other public and private banks.	The GOB issued 25-year bonds to compensate banks for BJC debts.
Schedule 3.4 (a)	Sectoral policy action	6/30/94	1994	C	The Borrower has ensured that PBs have forgiven and written off 30% of the debt owed to them by the public jute mills closed under the Program.	PBs wrote off 30% of the due amount in 1994. Private banks were compensated with bonds by the GOB.
Schedule 3.4 (b)	Sectoral policy action	6/30/94	1994	C	The Borrower has fully discharged, on behalf of the public jute mills closed under the Program, their remaining outstanding debt obligations to PBs and other public and private banks.	The GOB paid off 70% of the total outstanding debts of closed mills with NCBs and 100% of their debts with private banks using Treasury Bonds of 25- year maturity.
Schedule 3.5 (a)	Sectoral policy action	7/31/94		CP	The Borrower has offered for sale to the private sector at least nine public jute mills.	Nine mills were tendered for sale late 1996-early 1997, including three mills originally slated for closure. Only two offers were received, but were considered too low by the GOB and no awards were actually made.
Schedule 3.5 (b)	Sectoral policy action	10/31/94		NC	The Borrower has reduced its share in total loom capacity in the jute industry to not more than 7,000 looms.	Currently, BJMC has a capacity of some 12,000 looms.
Schedule 3.6	Sectoral policy action	12/31/94		CP	The Borrower has completed the liquidation of BJC.	Only a fraction of the 221 properties of BJC were divested prior to the Closing Date. Moreover, there are still a significant number of staff still employed by the shell company managing the remaining assets.
Schedule 3.7	Sectoral policy action	12/31/94	1994	C	The Borrower has ensured that PBs have concluded arrangements for restructuring the debt owed to them by the public jute mills referred to in Schedule 3.5 (a).	Although these five mill were not closed as anticipated in the context of the Program, their debts as those of other public mills were restructured according to the agreed guidelines.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 3.8 (a)	Sectoral policy action	12/31/94	1994	C	The Borrower has ensured that PBs have concluded debt restructuring arrangements with those private jute mills that have agreed to participate in the debt write off, restructuring and interim financing arrangement under the Program.	The debt write off and restructuring packages for private mills were the same as those offered to public mills. The grants supplied to private mills under the interim financial arrangement, on the other hand, were less generous than those provided to public mills.
Schedule 3.8 (b)	Sectoral policy action	12/31/94	1994	C	The Borrower has ensured that PBs have instituted legal proceedings for debt recovery against those private jute mills that have refused to participate in the financing arrangement offered under the Program.	There was no need to start such proceedings since all private jute mills became beneficiaries of the financial package offered under the Program.
Schedule 3.9	Sectoral policy action	12/31/94		CP	The Borrower has compensated PBs satisfactorily through issuance of bonds, for the write off of the debt of BJC and of the public mills closed under the Program, and for the restructuring of the debt of private mills and those offered for privatization.	The GOB compensated private banks fully with bonds, but not the NCBs. It had been agreed that the NCBs were going to be compensated according with their overall capitalization needs. Even though the capital base of NCBs was significantly weakened by the debt relief arranged for jute mills, the GOB decided not to compensate NCBs for the losses arising from the debt write offs until a future NCB restructuring program takes place.
Schedule 3.10 (a)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that beginning July 1, 1993, working capital requirements and operational losses of jute mills are not financed by PBs except for such acceptable periods and up to an estimated amount in accordance with a methodology satisfactory to IDA.	Because of the lack of progress in the privatization of public mills, the amount of interim financing provided to public mills was considerably more than originally visualized under the Program. In addition, the subsidies provided by the GOB to public mills went beyond those allowed under the formula agreed in the context of the DCA.
Schedule 3.10 (b)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that except as provided in Schedule 3.10 (a), no additional financial support is made available to cover operational losses of the public and private jute mills without the prior agreement of IDA.	Because of the delays in program implementation and pressures from BJMA, the GOB decided to extend the loss financing for private jute mills for six more months through the end of June, 1995. This extension of the interim financing to private mills was not agreed with IDA.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 3.10 (c)	Sectoral policy action	Ongoing			The Borrower has ensured that public jute mills sold under the Program continue to receive interim financing to cover operational losses from PBs according to the formula agreed for private mills.	This did not apply since no public mills were privatized under the Program.
Schedule 3.10 (d)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that those public jute mills that have not been offered for sale under the Program in accordance with the timetable provided to IDA have been declared ineligible by the PBs for receiving interim financing for working capital and operational losses.	No public mill was declared ineligible for interim financing despite the fact that no mills were privatized. Consequently, the amount of interim financing actually provided to public mills resulted in a considerably higher figure than originally projected in the context of the Program.
Schedule 3.10 (e)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that those public jute mills that have not reduced their operational losses during FY94-95 to at least 85% of the level of such losses during the previous Fiscal Year are closed.	The GOB did not close any mills despite the fact that preliminary figures from BJMC show losses above the 85% ceiling for several of the public mills in FY94-95.
Schedule 3.10 (f)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that beginning Dec. 31, 1994, PBs have terminated all interim financing of working capital and operational losses of the privatized jute mills and other private jute mills under the financing arrangement of the Program.	See comment to Schedule 3.10 (b).
Schedule 3.10 (g)	Sectoral policy action	12/31/94		CP	The Borrower has fully reimbursed PBs for their interim financing of the operational losses of the private and public jute mills in accordance with the financing arrangement of the Program.	Some of the NCBs still have not received a full reimbursement from the GOB for the interim financing they provided to jute mills. This has reduced the availability of working capital for some of the mills allowed under the current prudential guidelines of the BB.
Schedule 3.11	Sectoral policy action	12/31/94	1994	C	The Borrower has ensured that BB has issued new, satisfactory prudential guidelines, to govern all lending by public and private banks to jute mills with effect from January 1, 1995.	These prudential guidelines were timely issued. By and large, PBs adhered to them, although some of the NCBs surpassed the exposure lending ceilings recommended by the guidelines –in part due to GOB delays in providing them with adequate compensation in the form of Government's bonds..

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 3.12	Sectoral policy action	Ongoing		NC	The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to IDA with the objective of restoring and maintaining profitability in this industry.	The public mills wage policies of the GOB continued to be dictated by the general wage policy for public employees, which was considerable more generous than the agreed policy of refraining from nominal wage increases in the jute industry until the viability of the mills was restored.

THIRD TRANCHE						
Schedule 1.4 (A) (i)	Macroeconomic policy conditionality	9/30/96			Macroeconomic policy framework of the Borrower is consistent with the Program	There was no formal evaluation of this since the Borrower did not take other actions required prior to the release of this third tranche.
Schedule 1.4 (A) (ii)	Sectoral policy action	9/30/96		NC	Satisfactory progress in carrying out the program.	The third tranche was never released as many of the actions required for this as well as of previous tranches were not completed by the GOB.
Schedule 4.1 (a)	Sectoral policy action	6/30/96		NC	The Borrower has offered for sale to the private sector at least nine public jute mills in addition to those offered for sale pursuant to Schedule 3.5 (a).	Since October 1996 the Privatization Board has tendered several mills for sale, but no privatization transaction has been completed to date. Currently, the Privatization Board has a portfolio of 17 jute mills which is expecting to tender in the period 1997-98.
Schedule 4.1 (b)	Sectoral policy action	6/30/96		NC	The Borrower has reduced its share in total loom capacity in the jute industry to not more than 4,000 looms.	The loomage capacity controlled by BJMC is currently some 12,000 looms in 27 mills under its control.
Schedule 4.2	Sectoral policy action	9/30/96		C	The Borrower has ensured that PBs have concluded satisfactory arrangements for restructuring the debt owed to them by public jute mills referred to in Schedule 4.1 (a).	The GOB completed the restructuring of debts of all public jute mills independently of whether they were listed for privatization or not.
Schedule 4.3 (a)	Sectoral policy action	9/30/96		C	The Borrower has ensured that PBs have forgiven and written off 30% of the debt owed to them by the public jute mills closed under the Program.	Only four mills were closed under the Program –those closed prior to Board presentation. Besides the five mills targeted for closing under the second tranche, the GOB was supposed to have closed all those mills tendered for sale but that was unable to sell.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 4.3 (b)	Sectoral policy action	9/30/96		C	The Borrower has fully discharged, on behalf of the public jute mills closed under the Program, their remaining outstanding debt obligations to PBs and other public and private banks under terms satisfactory to IDA.	Since the GOB did not close any mills during the implementation of the Program, this condition ended up being identical to that contained in Schedule 3.4 (b).
Schedule 4.4 (a)	Sectoral policy action	Ongoing		CP	The Borrower has ensured that PBs have continued to refrain from financing the working capital requirements and operational losses of public jute mills except for such acceptable periods and up to an estimated amount in accordance with a methodology satisfactory to IDA.	See comment to Schedule 3.10 (a)
Schedule 4.4 (b)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that except as provided in Schedule 4.4 (a), no additional financial support is made to cover operational losses of the public jute mills without the prior approval of IDA.	See comment to Schedule 3.10 (b)
Schedule 4.4 (c)	Sectoral policy action	Ongoing		Not applicab.	The Borrower has ensured that public jute mills sold under the Program do not continue to receive interim financing from PBs under the formula agreed for public jute mills.	This did not apply since no public mills were privatized under the Program.
Schedule 4.4 (d)	Sectoral policy action	Ongoing		NC	The Borrower has ensured that those public jute mills that have not been offered for sale under the Program in accordance with the timetable provided to IDA have been declared ineligible by PBs for receiving interim financing for working capital and operational losses.	See comment to Schedule 3.10 (d)
Schedule 4.4 (e)	Sectoral policy action	Ongoing		NC	The Borrower has ensure that those public jute mills that do not reduce their operational losses during FY95-96 to at least 85% of the level of such losses during the previous fiscal year are closed.	The GOB did not close any mills despite the fact that preliminary figures from BJMC show losses above the 85% ceiling for several of the public mills in FY95-96.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 4.4 (f)	Sectoral policy action	Ongoing		C	The Borrower has ensured that, beginning June 30, 1996, PBs have terminated all interim financing of the working capital requirements and operational losses of the public jute mills under the financing arrangement of the Program.	The interim financing arrangement for public mills finished at the end of June, 1996 as scheduled. However, the amounts spent in subsidies by the GOB were significantly larger than originally expected, mainly because the GOB did not carry out the closure and divestiture of jute mills as planned.
Schedule 4.4 (g)	Sectoral policy action	9/30/96		CP	The Borrower has fully reimbursed the PBs for their interim financing of the operational losses of the public jute mills under the financing arrangement of the Program.	See comments to Schedule 3.10 (g)
Schedule 4.5	Sectoral policy action	9/30/96		CP	The Borrower has compensated PBs satisfactorily through issuance of bonds, for the write off of the debt of public mills closed under the Program, and for the restructuring of the debt of the additional nine public mills offered for sale and referred to in Schedule 4.1 (a).	See the comments to Schedule 3.9.
Schedule 4.6	Sectoral policy action	Ongoing		NC	The Borrower has disposed of the equipment of the public mills closed pursuant to Schedule 3.1 (b) and that of downsized mills which is not required any longer for their operation.	The GOB never closed the five mills that were part of the policy actions included for the release of second tranche and referred to in this Schedule. Also, the GOB has not disposed of the equipment that has become redundant as a result of the reduction in operating capacity of BJMC mills.
Schedule 4.7	Sectoral policy action	Ongoing		NC	The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to IDA with the objective of restoring and maintaining profitability in this industry.	See comment to Schedule 3.12.

Section of DCA	Covenant/ Conditionality type	Original expected date	Fulfillment date	Present status	Description of covenant	Comments
Schedule 4.8	Sectoral policy action	6/30/96		NC	The Borrower has formulated a satisfactory methodology, and implemented where applicable, for adjusting the rate of interest on bonds issued under the Program to be applicable in the fourth and subsequent years from date of issue.	The rate of interest of these bonds was supposed to reflect market conditions starting from year four on. However, the GOB told IDA that because of the high fiscal cost of applying market rates, there were no plans for the time being to apply a market-based formula to adjust interest rates paid on the bonds. According to the Program, this new formula was supposed to have been communicated to bond holders not later than June 30, 1996. However, this did not happen.

C =covenant complied with
CD= complied with after delay
CP = complied with partially
NC= not complied with

Table 8: IDA Resources: Staff Inputs

Stage of Project Cycle	Actual Staff Weeks	Stage of Project Cycle	Actual Staff Weeks
Through Appraisal	222.6	Supervision Support to Privatization Board	12.0
Appraisal-Board	69.3	Response to Inspection panel	12.0
Board-Effectiveness	4.0	Technical Assistance on Training/Retraining	8.0
Supervision	107.7		
Completion	10.0	TOTAL	445.6

Table 9: IDA Resources: Missions

Stage of Project Cycle	Month/ Year	No. of Persons	Days in Field	Specialized Staff Skills Represented	Performance Rating: Implementation Status	Performance Rating: Develop-ment Objectives	Types of Problems
Through Appraisal	5/92	2	13	Economist & Financial Sp.	-	-	-
	7/92	5	29	Economist, Financial Sp., PSD Sps. & Industry Sp.			
Appraisal through Board Approval	2/93	5	21	Economist, Financial Sp., PSD Sps. & Industry Sp.	-	-	-
Board Approval through Effectiveness	-	-	-	-	-	-	-
Supervision	4/94	5	12	PSD Sp,. Financial Sp., & Economist	1	1	None
	7/94	2	20	Program Officers	S	HS	None
	2/95	3	12	PSD Sp. & Program Officer	U	S	Most second tranche conditions not met
	7/96	6	25	PSD Sp, Privatization, Financial & Trade Sps	U	U	Even under revised timetable most second tranche conditions not met.
	3/97	4	24	Privatization & Finance Sps & Program Officer	HU	U	Same as above
Supervision/ Completion	6/97	3	20	PSD Sp, & Financial Sp.	HU	HU	Program closed with little progress in implementation beyond first tranche.

HS - highly satisfactory; S - satisfactory; U - unsatisfactory; HU - highly unsatisfactory

Bangladesh

Jute Sector Adjustment Credit
Implementation Completion Report (ICR) Mission
June 24 to July 30, 1997

AIDE MEMOIRE

I. Review of Implementation of the Jute Sector Adjustment Credit (JSAC)

1. This mission conducted the last supervision of the JSAC prior to the June 30, 1997 Closing Date. It also initiated preparation for the Implementation Completion Report (ICR) of the program under JSAC. The mission, comprised by Messrs. Alfredo Dammert (Task Manager of the Program), Reazul Islam (Senior Project Economist, Resident Mission) and Claudio Pardo (Consultant), met with officials of the Government, jute mill sector representatives and officers of domestic banks (see Annex I for the list of meetings). At a meeting chaired by Dr. A.K.M. Masihur Rahman (Secretary, Economic Relations Division (ERD), Ministry of Finance) on June 28, 1997, it was agreed that the extension conditions for JSAC would not be met and that the JSAC credit would therefore close as scheduled on June 30, 1997. IDA sent a telex to ERD confirming the closure of JSAC, followed by a letter, dated July 10 ,1997 explaining the main reasons for this action.

2. The JSAC, approved by the IDA Board in December 1993, was programmed to be disbursed in four tranches, of which only the first one for SDR35 million was disbursed following effectiveness. In addition, three separate IDA reflows totaling SDR6.71 million were approved, but only the first one for SDR2.41 million was disbursed. The initial closing date for JSAC was agreed for December 31, 1996. It was later on extended for an additional six months to June 30, 1997, when the Credit was closed. Although JSAC is closed, the Government has indicated its continued commitment and is preparing a program to strengthen the reform. IDA will submit a policy note to the Government that may assist it in developing its program. Meanwhile IDA recommends that the Government ensure that financial discipline be maintained in the jute sector.

II. Preliminary Findings of the ICR Mission

3. The objective of JSAC was to support the Government of Bangladesh (GOB) in carrying out its program of reform for the jute sector. The ultimate objective of the Government's program was to create a viable, essentially privately-owned jute industry operating on a commercial basis in a reformed policy environment. The GOB aimed at completing the reform of the sector in three years, with the program being supported by JSAC covering the following eight themes: (a) downsizing of the industry through closures of Bangladesh Jute Corporation (BJC), the public marketing board and public jute mills; (b) privatization of public jute mills (c) employment rationalization;

(d) restructuring the industry's past debt; (e) reforming wage policies of the industry; (g) training of workers and managers in jute mills; (g) retraining of affected workers in jute mills; and (h) elimination of the Government interventions in the jute sector. Although some specific actions included in the Development Credit Agreement (DCA) -- in particular those related to debt restructuring and labor retrenchment -- were accomplished, key specific actions -- mainly privatization and further closure of public jute mills -- necessary to meet the ultimate objective of the program were not implemented. Therefore only the first tranche of the Credit was disbursed.

4. The implementation record of the jute sector adjustment program supported by JSAC shows that little progress was achieved in the efforts to structurally reform the sector. Furthermore, it could be argued that there has been a reversal, in the sense that the presence of the public sector in the industry is even more pronounced today than when the strategy for the reform of the sector supported by JSAC was formulated late in 1993. The statement of policies by the Government, that was to be the blueprint for the actions needed to transform the sector, was contained in the letter sent by the GOB to IDA on December 23, 1993. The original timetable for implementation considered a three-year horizon for the implementation of the proposed reform and the closing date for JSAC was agreed for December 31, 1996. Initially, there was a satisfactory degree of progress in the reform process. Indeed, several important actions were taken by the GOB prior to Board presentation of the JSAC operation in February 1994. Further progress was made in the following months and the Credit became effective in April 1994, and soon thereafter the first tranche was disbursed. However, the agreed actions in connection with the other three scheduled tranches were taken partially at best. Consequently, JSAC was closed on June 30, 1997, with the funds allocated to the floating and the second and third tranches remaining undisbursed.

5. The mid-term review of July 1996, agreed on a revised, more flexible timetable for the implementation of the actions under JSAC. As stated in the Aide Memoire of the March/April 1997 supervision mission, the Government got substantially behind schedule in the revised implementation timetable based on the six-month extension of JSAC's Closing Date . Furthermore, none of the up-front actions that would have facilitated a further extension of the closing date focusing mainly on privatization/closure of public jute mills had been taken, situation that remained unchanged at the arrival of the current mission. As a result, the JSAC was allowed to lapse without a further extension of the Closing date of June 30, 1997.

6. Phasing out of BJC. The GOB was expected to complete the legal liquidation of BJC as part of the second tranche conditionality. Progress in implementing this action is as follows:

- Although BJC is not under operation any longer, liquidation of assets is proceeding slowly. IDA expected to see the divestiture of at least 100 of these properties during the first half of 1997, out of a total of 221 initially in the hands of BJC. Little progress has been achieved, particularly in the last year, as close to 90% of the asset lots from the former BJC are still to be divested by the MOJ.

- Because of the lack of progress in liquidating the assets of BJC, there is still a significant number of retained employees still working in the company under liquidation. This represents a high cost to the Government.

7. Reduction in the Excess Capacity of the Jute Industry. Prior to Board presentation, four public mills were closed and one downsized, for a total capacity reduction of 2,000 mills. During JSAC implementation it was expected that besides disposing of the equipment of the four closed mills, five additional ones were to be closed and one other downsized, with an additional reduction in capacity of at least 2,700 mills. Furthermore, the GOB was supposed to dispose of these mills and equipment –ideally through sales to the private sector. Main results were:

- No further closures of public mills were implemented.
- The assets of only one of the previously closed public mills have been transferred and those of another mill have been awarded.

The lack of further closures of public mills has been a major setback of the program that expected to reduce drastically public sector loom capacity.

8. Privatization of Public Mills. The JSAC program envisioned a substantial privatization effort of public mills by the Government. The agreement with IDA, considered a reduction of the installed capacity in public hands to only one jute mill with no more than 4,000 looms by the end of the three-year implementation of the JSAC program. In addition to the closure of public mills (para. 6), this was to be accomplished by the offer for sale to the private sector of at least 19 public jute mills. However, none of the public mills have been privatized. The status of the privatization program is as follows:

- BJMC continues to operate 26 public jute mills. Moreover, while production of private mills has decreased significantly, with less than 4,000 looms under operation, public mills have increased their production since JSAC program started, as a result of the high loss financing subsidies that these mills have received.
- The GOB has not been able to complete the privatization of any operating jute mill so far. The closer it has come to do so has been in the case of Hafiz Textile Mills, for which the tender award was made, although the transfer has been delayed for a variety of problems that have entangled the process.
- There are still many causes affecting the privatization process: (i) the recurrent problems experienced by the privatization process has raised a high degree of uncertainty among potential bidders; (ii) tender procedures are based on inflexible norms and rigid accounting standards; (iii) there have been too high minimum price requirements based on book value of properties and assets; (iv) lack of active marketing of properties and assets for sale; (v) lengthy and many-layered award process; (vi) lack of physical access to properties and assets for sale; (vii) high labor liabilities and wage bills associated with the mills offered for sale; and (viii) difficulties in structuring the financial package needed for bidding for an operating public enterprise due to weakness of the financial system in Bangladesh.

Only recently the Privatization Board has received a strongly political backing with the appointment of a Chairman having the rank of State Minister. Today, the Privatization Board has 14 jute mills in its list of public companies for privatization during 1997-98. In spite of the apparently strong backing, the Government has not yet approved any tender awards for jute mills (beyond the Hafiz Textile Mill awarded in September 1996 and not yet transferred). Success requires of the widest political and financial support possible, in conjunction with a better utilization of available technical support and assistance.

9. Reduction of Excess Employment in BJMC. The initial goal for the JSAC program was a reduction of at least 20,000 workers in BJMC's labor force. This component has been accomplished with the following results:

- BJMC was able to successfully reduce its labor force by even a larger amount than that targeted by the JSAC program. Total labor retrenchment by BJMC was in excess of 23,000 under JSAC.

10. Restructuring of the Jute Sector Debt and Restoration of Market-Based Credit Relationships between Mills and Banks. Together with the privatization of mills, this was a central component of JSAC's matrix of policy actions. In essence, the success of the JSAC program depended to a large degree on a well coordinated and finely tuned execution of privatization of public mills supported by a realistic debt relief for the industry, both private and public. This was necessary to create the basis for a well balanced and equitable rehabilitation of the industry led by private initiative. It was meant to return financial viability to the jute mill industry by bringing its debt servicing in line with the ability of the sector to pay. The debt relief had three sub-components: (i) a debt rescheduling of two-thirds of past obligations for private and soon-to-be privatized mills as of June 30,1993 and the debt-forgiveness of the remaining outstanding principal; (ii) the temporary loss (grant) financing via public subsidies channeled through banks of losses to be incurred by private (18 months) and public (3 years) mills; and (iii) after the interim period, the provision by banks of working capital to private and public mills against the security of mills' projected export revenues and based strictly on market terms. Against this background, some of the implementation results were:

- Debt restructuring was completed by participating banks under the terms and conditions agreed with IDA. For the two-thirds rescheduled debt, jute mills got a 15-year term, with gradually rising installments, including 3 years of grace for principal payments. The interest rate was 0% for the first three years and 3% per year thereafter. Four public and two private banks participated in the debt restructuring exercise.

- It is estimated that, on a market basis, the rescheduled debt has a present value of roughly 50% its face value. Participating banks are expected to absorve the implicit loss over time. More damaging, however, to the solvency of participating banks is that this so-called "segregated debt" has been generally non-performing, with only a minority of the mills (private and public) that benefited from the debt relief servicing their obligations timely. In the case of one private bank, some additional rescheduling of private mills debt has taken place.

- Today, slightly less than half of the private mill are normally on time in the servicing of their debt obligations with participating banks. The number of public mills in a similar financial position is much smaller, as most of them continue to show significant losses.
- The lack of divestiture of public mills, unanticipated increases in BJMC output and a six-month extension in loss subsidization of private mills, put the estimates for interim financing for the period FY1994-96 well above the projections at the beginning of the JSAC program. There was budgetary support of some US$200 million for the period, versus a projected amount of US$43 million.
- Due to the continued financial deterioration of the jute industry, banks now acting under arms-length business practices, are extremely reluctant to replenish the working capital that the industry badly needs, particularly now that a new, large crop is coming into the marketplace.

11. This component of JSAC also included other debt related conditionality, specifically on: (i) the terms and conditions for settlement of bank debts due by BJC and the public mills that were closed or were projected to be closed; (ii) the compensation of banks via government bonds for losses related to write-offs associated with the debt relief given to the jute mill industry, including those related to BJC and closed mills; and (iii) the issuance of new prudential guidelines to govern all lending by banks to jute mills. With some exceptions, implementation went as expected:

- Amounts written-off by participating banks were compensated by GOB with 25-year bonds. Their interest rate, which initially was 5% p.a., was supposed to be adjusted to reflect market conditions from the fourth year on. However, this is yet to happen. Currently, market conditions indicate that the GOB would have to budget about twice as much to service the interest on the bonds if a market-guided formula were applied
- A significant amount of claims by participating banks in connection with the interim financing provided to private jute mills has not been paid by the GOB. In this case, although the GOB accepts the obligation, it has yet to deliver the three-year bonds carrying a 7% interest rate. Banks have penalized the private mills by diminishing the available amounts under the revolving credit lines allowed by BB prudential guidelines.
- Currently, banks financing the jute industry are by and large trying to adhere closely to the maximum individual exposure limits being imposed by the regulatory authorities at the BB. However, some of the banks are having difficulties in staying within the allowed margins due to rising arrears both from the mills and the GOB (non-reimbursement of interim financing).

12. Maintenance of an Adequate Macroeconomic Framework including Wage Policies. This was a policy objective that was to be maintained throughout the whole

implementation period of JSAC and tested prior to the release of the second and third tranches. It was important for the GOB to maintain a macroeconomic environment that preserved the overall competitiveness of the Bangladeshi economy, including that of the jute industry. In this respect, it was of particular relevance for the GOB to maintain a conservative wage policy and an exchange rate policy that preserved the competitiveness of domestic producers. It was essential that the GOB refrained from awarding further nominal wage increases until the viability of mills was restored. However, the gains in labor productivity in publicly operated mills brought about by the reduction the total level of employment has not been translated in lower production costs, since the gains in wage and salary increases in BJMC have continued to be in line with general raises granted to the public sector at large. Considerably more discipline has been observed in the privately run mills, where wages and salaries have been delinked from the increases experienced by BJMC. This has been one of the successes under JSAC. Today, remunerations in private mills are as much as some 40% below those paid by BJMC.

13. Training Program for Jute Workers and Managers. This component financed under IDA's Sixth Technical Assistance Credit (TAVI) is progressing satisfactorily. The original target was for the training of 8,000 workers and managers. The main results to date are:

- Most recent figures indicate that some 15,000 operatives, supervisors and mid-level managers have been trained so far. The revised goal is to train a total of 16,800 mill employees by the end of the program in November 1997. Roughly 90% of the trained workers are from BJMC. The program has had much less attraction among private mills associated with the BJMA.
- The impact of the training program on productivity and cost efficiency at BJMC mills has been positive, although the coverage of the training program is rather limited, given the size of the labor force (permanent and temporary staff) engaged by the jute mill industry. Information available on a sample basis confirms significant gains obtained from the training of mill workers.
- Although the cost of training mill workers is less than half that of retraining retrenched workers, the cost is still quite high and this is affordable for the mills only because is given to them for free --it is being financed by the GOB with IDA funds from TA VI. Even under these conditions, it has been difficult for private mills to release their workers for training. Their cost is the wages and salaries --about one month's worth-- they pay while their workers are on training.

14. Retraining Program for Affected Jute Workers As apart of the social safety net included under JSAC a retraining program was financed under TAVI. The result of the program to date are as follows:

- The total number of retrained workers has been slightly less than 6,000 so far, of which only 3,615 have been workers actually retrenched. The rest have been workers still employed in the mills. The retraining program is scheduled to finish this December, so the final numbers will be higher.

- The shortage of candidates for retraining has been due to a combination of factors, including the lack of progress in the privatization effort and a concentration of the retrenchment coming from voluntary retirements.
- The retraining program has not been cost effective and its impact as a provider of a social-safety net for retrenched workers has been weak. Contrary to the initial expectation, users have not been willing to contribute to partially cover the cost of the retraining they are receiving. The retraining of each worker takes about 2 weeks, but its cost amounts to some 8 months of an average paycheck for an active jute mill worker.

III. Contents and Timetable for the ICR

15 .As agreed in the context of the Development Credit Agreement, IDA expects to receive from the GOB its own assessment report of JSAC . As discussed with GOB officials in the course of the ICR mission, the contribution of the GOB should be forwarded to IDA with a summary. The summary, or the full text of this report if it is ten pages or less, will be attached unedited to the ICR. The IDA staff expects to have a draft of its own contribution to the ICR within the next two months. This will be sent to the GOB for its views and comments. As required by IDA policy, the ICR has to be submitted to the IDA Board within six months of the closing of JSAC, that is December 31, 1997 at the latest. The mission, however, expressed its preference for being able to submit it well in advance of this deadline.

Annex 1

JSAC Supervision and ICR Mission June/July 1997
List of officials met

Mr. Kazi Zafarullah, Chairman (State Minister), Privatization Board
Mr. Nasimuddin Ahmed, Ex-Finance Secretary
Dr. A.K.M. Masihur Rahman, Secretary, ERD, Ministry of Finance
Dr. Akbar Ali Khan, Secretary, Ministry of Finance
Mr. Akhtar Ali, Secretary, Ministry of Industries
Mr. Md Abdul Hannan, Secretary, Ministry of Jute
Mr. Syed Amirul Mulk, Secretary, Banking Division, Ministry of Finance
Mr. S.M. Zakaria, Member, Privatization Board
Mr. A.K.M. Rezaur Rahman, Joint Secretary, Ministry of Jute
Mr. Mosharraf Hossin, Managing Director, Agrani Bank
Mr. Md. Qamrul Huda, Managing Director, Pubali Bank
Mr. M. Aminuzzaman, Managing Director, Uttara Bank
Mr. A.K.M. Nozmul Haque, Managing Director, Rupali Bank
Mr. Muniruddin Ahmed, Chairman, BJMC
Mr. Momenur Rahman, Managing Director, Contessa Consultants
Mr. Kh. Raisuddin Ahmed, Managing Director, Mashriqui Jute Mills Ltd.
Mr. Golam Mostafa, Managing Director, Janata Bank
Mr. Chacklader M. Alam, Managing Director, IPDC Ltd
Mr. Md. Shah Jahan, ERD, Ministry of Finance
Mr. Zahiruddin Khan, Chairman, BJMA
Mr. Faisal Siddiqui, Managing Director, Private mill
Mr. Ghazi Mahbubur Rahman, Project Director, JSAC/TA
Mr. Syed Nasiruddin Ahmed, General Manager, Latif Bawany Jute Mills Ltd. (Unit of BJMC)
Mr. Jan Bove, Resident Representative, IMF
Mr. James N. Curry, Jute Sector Training Program

IMPLEMENTATION COMPLETION REPORT

BANGLADESH

JUTE SECTOR ADJUSTMENT CREDIT
(Credit 2567-BD)

Borrower Contribution to the ICR

This Appendix presents an unedited copy of the Government's evaluation of the Jute Sector Adjustment Credit Program. This evaluation has two components, one prepared by the Ministry of Jute --the executing agency for JSAC-- and the other by the Ministry of Finance, which provided the financing for the Program and implemented the debt-restructuring of the jute mills and BJC.

Ministry of Jute

Evaluation Report on the Jute Sector Adjustment Credit (JSAC)

Introduction:

The Jute Sector Adjustment Credit (JSAC) extended to GOB by IDA to support its Jute Sector Reform Programme(JSRP), effective from February,1994 was closed on 30 June,1997 with a six months extension. Its primary objective was the creation of a viable, privately owned jute industry operating on a commercial basis within a reformed policy environment. However, this objective was not achieved within the agreed time-frame. A meeting was convened on 05 August 1997 under the chairmanship of Secretary, Ministry of Jute to discuss the implications of the closure of JSAC and the fate of the JSRP. The meeting was attended by representatives of the public and private sector jute industries. The meeting discussed the existing problems of the jute sector and opined that the JSAC under JSRP could not bring about desired adjustment in the sector on account of failure of the privatization component of the programme. The meeting agreed that JSRP should continue with its objective intact and that a revised programme should be formulated as soon as possible and fresh donor support sought.

Jute in the Bangladesh Economy

The importance of jute in the Bangladesh economy cannot be overstated. It is a major cash crop for about 4.5 million producers of raw jute while a fourth of the population is directly or indirectly involved in jute production, transportation, processing and marketing. The jute sector provides about 10 per cent of total employment in the economy, contributes 4 per cent to GDP and 11 per cent to total export earnings. In real terms net export earnings from jute is about 20% as is evident from recent studies of UNCTAD which have confirmed that one dollar of jute exports is equivalent to four dollars earned from export of ready-made garments.* Although the relative share of jute in total exports has declined over the years it is currently the third largest foreign exchange earner. The overall development of the economy and in fact the maintenance of present living standards of the rural population is, therefore, still substantially dependent on the jute sector.

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* UNCTAD "Draft Integrated Country Programme for Strengthening Supply Capacity for Export of Goods and Services: Bangladesh 1997-2002, August 1997.

Problems Facing the Jute Manufacturing Industry

The performance of the manufacturing industry has not been commensurate with the important role of jute in the national economy. On the contrary by the end of the 1980s it was facing a financial crisis of formidable proportions. The roots of this crisis lay in the huge losses incurred by both the public and private sector manufacturing industry. In FY 91 the combined losses of the jute sector totalled Tk. 7 billion or almost one percent of GDP.

The poor financial performance of the jute sector is attributable to low and falling world prices, unequal and tough competition with synthetics, inappropriate policy environment and inefficient industry. The combined effects of these factors has been for costs of production of jute to exceed unit export prices by over 40 percent in 1991. The correction of this imbalance between costs and returns to maintain financial viability is the major challenge confronting the jute sector.

Given its inability to be self-sustaining, the jute industry had to depend on artificial support measures and financial subsidies from Government and advances from nationalized commercial banks (NCBs) to cover its losses . In 1990 one-third of the losses were financed by export and interest subsidies from the national budget, and the rest by the NCBs. With projected losses and indebtedness expected to triple by 1998, the jute sector was imposing a severe burden on the financial sector threatening the viability of both public finances and the banking system .

It was in this background of dire financial straits that in the early 1990s GOB sought the assistance of the World Bank to support the manufacturing industry in a wide-ranging jute sector reform programme (JSRP).

Jute Sector Adjustment Credit (JSAC) under JSRP: Review of Performance

Objectives of JSRP

JSRP aimed at remedying the long-standing problems of the jute sector. It came into force in December 1993 and was to be implemented over a period of three years. The main objective of the programme was the creation of a viable, essentially privately owned jute industry, operating on a commercial basis within a reformed policy environment . With this end in view JSRP proposed a range of policy reforms that would transform the jute sector from a loss-making enterprise to a profitable one.

In support of JSRP was also a credit i.e. JSAC of SDR 175 million from IDA which came into force in February 1994 and was implemented retrospectively from July 1993 until its closure on 30 June, 1997. It was to be disbursed in four tranches but in practice only the first tranche of SDR 35m was disbursed.

Strategies and Performance of JSRP

The policy reforms of JSRP aimed at structural change of the jute industry. An underlying theme was that the performance of the jute mills under a regime of public ownership and management had proved to be inflexible and inefficient in adjusting to a rapidly changing market situation . The result was that the mills carried excess capacity, producing in volume at low prices and high cost leading eventually to massive financial losses. To remedy this situation JSRP proposed the rapid dismantling of the public jute manufacturing sector and its replacement with private ownership and management. In the interim period both public and private mills were to be supported by a programme of debt restructuring and financial relief while the manufacturing industry at the same time divested itself of low productivity excess labour. Underpinning these reforms was also to be put in place an appropriate macro-economic framework to support a competitive jute economy. The actual performance of JSRP from 1993-96 in respect of each of the main reform measures is summarized below:

Excess Capacity

The public sector plays a dominant role in jute manufacturing, marketing and trading. Jute mills operated under the Bangladesh Jute Mills Corporation (BJMC), numbering about 30, accounted for 60 percent of total manufacturing capacity. In the face of declining world demand for jute goods JSRP a reduction in the installed capacity of the public sector mills to not more than 4,000 looms by the end of the three year implementation period. This was to be achieved by the closure of nine mills, downsizing of two mills and privatization of eighteen mills.

In regard to the 30 public mills even before JSRP came into force four were closed and one downsized for a total capacity reduction of 2,000 looms. During implementation it was expected that the equipment of the four closed mills would be disposed of, five additional mills closed and one other downsized and eighteen mills privatized.

In practice these targets were not achieved. By mid 1997 loom capacity of the public sector had decreased by only 4,000 looms, from 16,000 to 12,000 because five jute mills were not closed and privatization of 18 did not take place. Thus a major objective of the JSRP to reduce the loom capacity of the public sector drastically was not realized.

Privatization

JSRP/ JSAC envisaged a significant transfer of public sector mills, at least 18 in number, to private ownership. But in practice none of the mills were privatized; the closest to privatization was the Hafiz Textile Mill for which the tender award was made but the actual transfer not effected. By mid 1997 BJMC continued to operate 26 public mills. Several reasons have been advanced for the failure of the privatization programme. Among these are the following:

1. uncertainty in the minds of potential bidders caused by past experience;
2. deficient tender procedures including valuation based on too rigid accounting principles;
3. high minimum price requirements;
4. lack of active marketing for sale of the mills;
5. lengthy tender award procedures;
6. lack of physical access to the mills by potential bidders;
7. high wages in public mills and associated labour problems;
8. lack of interest among of private mill owners to participate in tenders for public mills; and
9. high operating losses of public mills.

The privatization of mills remains the central objective of JSRP. Determined effort should be made in the next three years to transfer to private ownership of all the jute mills that remain in public hands. As part of this continuing exercise, the procedures and strategies that were followed in the tender process could be modified, refined or dropped altogether. Among these are the following:

a) revise of the methods of valuation of assets;

b) allow sufficient time for potential buyers to familiarize themselves with the auctioned properties;

c) retrench all employees of mills put up for tender so that the new owner be free to hire labour as required and would also gain more confidence;

d) the permanent employees and workers who are retrenched should be given an option to either receive a golden handshake and leave immediately or they can be transferred to other BJMC mills if any vacancies exist;

e) no reserve price should be set for privatization;

f) if a reserve price is maintained, as far as possible the surplus land should be sold off separately from the mills as this will reduce the reserve price for the mills while also encouraging a distinction between those interested in the land and those in the jute mills;

g) the requirement for minimum number of tenders should be removed; and

h) commitment to divest must be made known by setting a deadline for transfer to the chosen bidder in the advertisement itself.

The above refinements relate to only a single strategy of privatization i.e. the sale of all of the assets of the mills through open tender. It has been found not successful but can be improved upon on the lines suggested. There is also the implicit danger in this method that the privatized mills may not remain as jute mills which would be contrary to the objectives of JSRP.

There are also alternative techniques of privatization that can be adopted. One such alternative would be to dissolve the existing public corporation, that is the BJMC, and convert the public mills under existing laws into public limited companies, restructure them giving shares to creditors as well as to workers against their gratuities or pensions, and sell shares to the public and private investors through the stock market.

Still another technique would be to convert the BJMC into a holding company and the retained mills (after closing down some of the worst performing mills) into subsidiaries of the convertedBJMC. Here too after restructuring, shares can be offered to workers and creditors and to the public and private investors in the open market.

The goal of privatization, which is to develop a more efficient form of management, can also be achieved without transferring ownership of the mills. A variant of this is the "management contract" under which the ownership of the means of production remains in public hands while its management alone is leased out to the private sector on along term basis on agreed terms and conditions. This form of limited privatization could also be attempted at least in the case of a few mills where outright transfer of assets is difficult.

If the above methods do not succeed in achieving the goal of privatization there would be only one option left i.e. liquidation of all of the failed mills. This would be the final step but would, in any event, follow with the financial bankruptcy of the industry. To avoid this eventuality and in the interest of jute growers it is essential that at least some of the options outlined above are made to success.

In order to implement the privatization programme envisaged under a revised programme suitable institutional machinery needs to be strengthened. This can be done by strengthening the existing Jute and Textile unit of the Privatization Board. Or a separate project may be taken within the Ministry of Jute to deal with privatization of Jute mills exclusively. Whatever the structure, it will need to be serviced by requisite professional skills. To develop the capability of the unit necessary technical assistance may be sought from the World Bank or other donor agencies.

Excess Labour

The jute mills were known to employ an excess of labour resulting in low productivity. To meet an annual demand of 500,000 tons of jute goods at the level of productivity achieved in India would require retrenchment of the labour force by as much as 45 percent.

The initial target of labour reduction under JSRP was a cut of at least 20,000 workers in the BJMC labour force. In fact total labour retrenchment by BJMC was in excess of 23,000. Hence this component of JSRP was more than achieved.

Indebtedness

The poor financial performance of the jute sector resulted in massive indebtedness, reported at about Tk. 40 billion in 1993 or about 20 per cent of the total portfolio of the banking sector. BJMC is the largest debtor, followed by BJC; private mills; traders, exporters and spinners. In addition, annual interest payment on debts amounted to 10 percent of the revenue of mills which limited their capacity to earn profit.

JSRP included a programme of debt relief in order to help restore financial viability to the jute mills by aligning its debt servicing to the capacity to pay. The program had three components i.e. (1) debt rescheduling of two-thirds of past obligations for composite mills and write-off of the remaining one-third of debts (2) in the interim period grant or loss financing via public subsidies channeled through banks of losses to be incurred by private mills (18 months later increased to 24 months) and public mills (36 months) from 01 July 1993 and (3) after the interim period provision by banks of working capital to private and public mills against the security of the projected export revenues of mills and based on market terms.

The programme of debt relief was implemented substantially. Debts were rescheduled with mills given 15 years for repayment of these sums including 3 years of grace for principal payments and low interest rates. The amounts written off by banks were compensated by Government with 25 year bonds at an interest rate of 5 percent per year. Losses incurred by mills were also reimbursed on a grant basis but with the terms and conditions of financing weighted in favour of public mills. In regard to working capital financing as well public mills had more ready access to banks.

Training of Jute Workers and Managers

An important objective of JSRP was to increase the productivity of labour by training and retraining at various levels. Although not covered by JSAC directly, IDA support was provided under the Sixth Technical Assistance Credit.

The original target was to train 16,000 workers and managers. By mid 1997 about 15,000 operatives, supervisors and middle level managers, mostly from BJMC, were trained. The coverage of the program is limited given the size of the labour force. Nonetheless the impact of the training on productivity and efficiency at the BJMC mills is reported to be positive. But private mills have found it difficult to release their workers for the program because of the cost of paying wages during training.

In order to provide a social safety net for retrenched workers a technical assistance retraining program was implemented. By mid 1997 about 6,000 had been retrained but only half of them were actually retrenched workers.

Maintenance of an Appropriate Macro-Economic Framework

JSRP considered the maintenance of a supportive macro-economic environment important, especially in regard to wages and exchange rate, to promote competitiveness of the national economy. However, although it was considered necessary to hold nominal wages at their current levels until such time as financial viability was restored to the mills, BJMC wage increases followed those granted to the rest of the public sector. Hence the gains in labour productivity that may have resulted from the reduction in the labour force were not translated into lower production costs. In the private sector more discipline was observed and wages in private mills are some 40 percent lower than in the public mills.

In regard to the exchange rate the World Bank view was that an annual downward adjustment may be necessary to achieve profit targets. However, decisions in this regard would have to take into account macro-economic considerations and competitiveness of exports in international markets.

CONCLUSIONS

The performance of JSRP was a mixed one. While there were positive achievements in regard to debt restructuring and labour retrenchment, in the two key areas of the further closure of public mills and transfer of these to the private sector, there was little or no progress. Of the four public mills that were closed only one of these were sold. Hence the structural reform of transforming public ownership of jute mills to private ownership and management operating on a commercial basis was not achieved. It was the view of the World Bank that, on the contrary, there was a retrogression from this objective as public sector mills were maintained close to full capacity with rising jute production while that of the private sector decreased. This was compounded by the fact that the public sector had more favourable loss financing and quicker access to working capital from banks. The need for equitable treatment of public and private mills thus remained at the closure of JSAC as was the issue of devising measures for effectively transferring public mills to private ownership and management.

Ministry of Finance's Contribution:

Jute Sector Adjustment Credit Evaluation Report

Background

To reform the jute sector in Bangladesh, GOB accepted the Jute Sector Adjustment Credit (JSAC) programme with the World Bank assistance. JSAC came into operation on 1st July 1993 for a period of 3(three) years. The broad objectives of JSAC were as follows:

i) Downsizing the public sector Jute Mills.
ii) Closure of Bangladesh Jute Corporation (BJC).
iii) Improving productivity and decreasing the cost of production.
iv) Privatization of public sector Jute Mills.
v) Restructuring the jute sector's previous Bank debts.
vi) Rationalization of excessive manpower.
vii) Retraining the affected/retrenched workers in Jute Mills.
vii) Elimination of the GOB intervention in the Jute sector, etc.

Evaluation of JSAC

In the following, an evaluation of JSAC is provided on the basis of following set of objectives (which were relevant to Finance Division under the Ministry of Finance).

* Loan Restructuring of Jute Mills
* Loss Refinancing of Jute Mills
* Rationalization of manpower
* Liquidation of Bangladesh Jute Corporation (BJC)
* Burden on the government exchequer.

* Loan Restructuring of Jute Mills

Under JSAC two-thirds of all outstanding loans of both public and private Jute mills were rescheduled for repayment over a period of 15 years with a moratorium of 3 years at a minimal rate of interest of 3%. Remaining one-third of loans were written-off by the participating banks. Government compensated the private participating banks for their written-off loans through issuance of treasury bonds. The total size of rescheduled and written-off portion of loan for Nationalised Commercial Banks (NCBs) are Tk. 12.45 billion and Tk. 10.42 billion respectively. Moreover private Banks like Pubali Bank Ltd and Uttara Bank Ltd have been compensated to the tune of Tk.0.68 billion for writing-off their Jute sector previous debts.

The objectives of above restructuring of loan were i) to relieve both public and private Jute mills of the continuing burden of large overdue loans with consequent adverse impacts on financial profitability ; and ii) to save NCBs and private banks from the curse of large non-performing loans having severe consequences on the viability of the banking institution.

However, information available indicate that neither the public nor private Jute mills have made payments according to the restructuring plan after the end of the moratorium period as agreed with banks. Thus neither the problem of overdue loans of Jute mills nor the problem of non-performing loans of banks have been resolved.

* **Loss Refinancing Scheme**

Under JSAC, two-third of the loss of private jute mills initially for a 18 month period ranging from 1st July 1993 to December 1994 and later extended to 24 months upto June 1995 were refinanced by government. Similarly losses of public sector Jute mills were refinanced for a period of 36 months. Under JSAC the private mill owners were required to contribute their one-third share towards adjustment of their overdue cash credit loans. Government has made payment to the tune of Tk. 9.97 billion to the participating banks on account of this scheme. The objective of this scheme was that the problem of overdrawn cash credit limit would be resolved so that bank and Jute mills would have smooth bank-client relationships.

However it is known that the private jute mill owners did not make their one-third contribution towards the cash credit loan. As a result, the private jute mills and banks have not resolved their working capital problem.

* **Rationalization of manpower**

Under JSAC, government has provided Jute mills under Bangladesh Jute Mills Corporation (BJMC) Tk. 2.93 billion for retrenchment of excess labour. The objective of the retrenchment programme was to reduce high overhead cost of mills and raise productivity commensurate with wages.

However, Jute mills undergoing retrenchment programme are known to have employed additional work force under master-roll negating any favourable influence on cost of production. Moreover with increases in wages as per wage commission recommendation, productivity of public Jute mills workers have remained far below their wages.

* **Liquidation of Bangladesh Jute Corporation (BJC)**

Under JSAC, Government Liquidated BJC and paid 70% of debt obligation of BJC to participating banks through issuance of treasury bonds amounting to Tk. 9.35 billions. The participating banks also had written-off remaining 30% of their debt. Moreover Development Financial Institute (DFI) like Bangladesh Krishi Bank has been compensated to the tune of Tk.0.106 billion for writing-off their all previous debts with BJC. An winding-up cell was established. The objective was that the assets of this corporation would be sold and receipts would be deposited to the government.

However, there was little progress towards sale of assets and the winding-up cell is being continued to be financed with consequent drain of government resources.

* **Burden on the Government Exchequer**

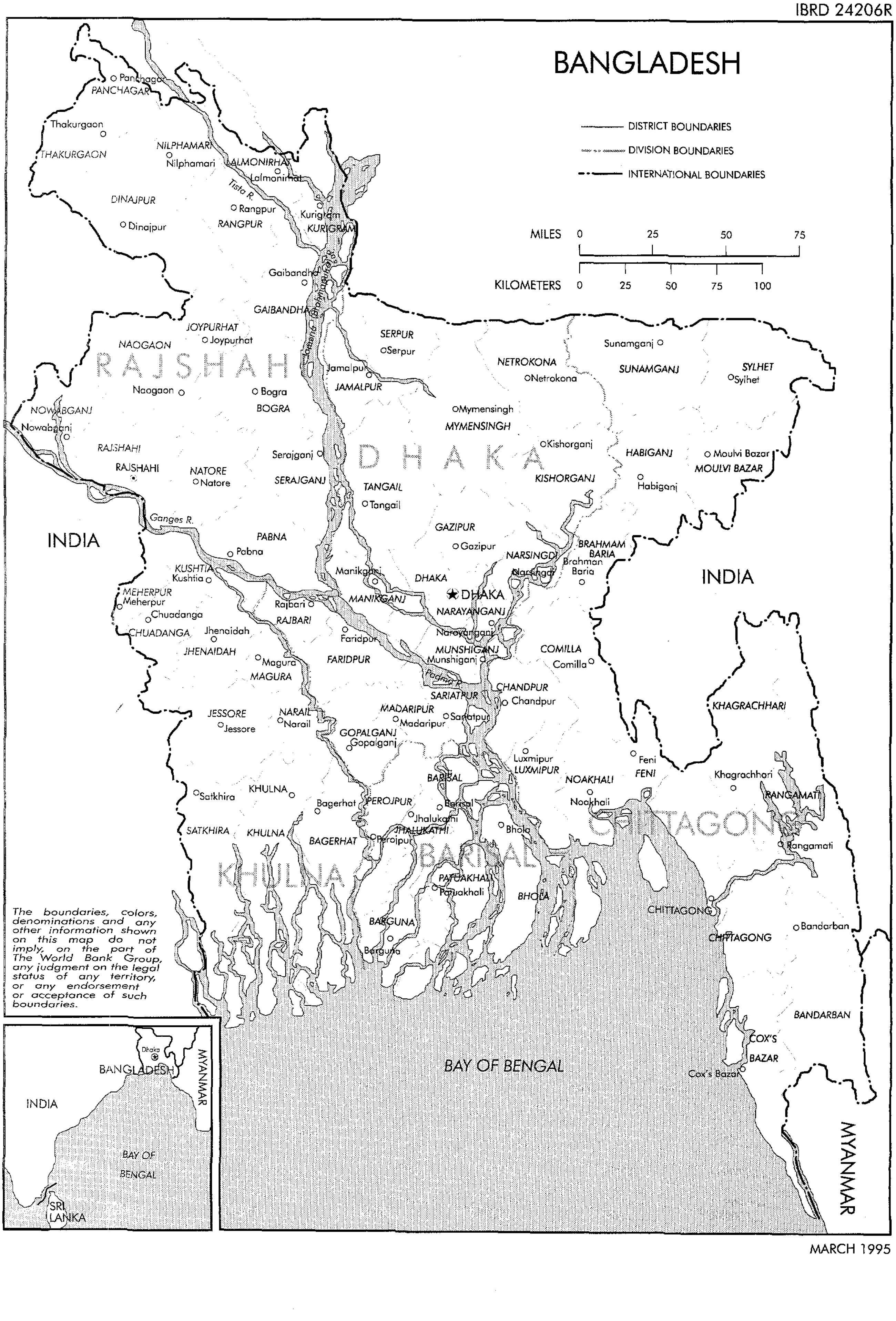
Due to JSAC, direct and indirect burder falling the Government is shown below :

	(billion Taka)
i) Loss Refinancing :	
- BJMC	9.67
- BJC	0.93
ii) Re-scheduling NCB's loan	12.45
iii) Written-off NCB's loan	10.42
iv) Manpower Rationalization Programme (BJMC)	2.93
v) BJC's Bank Debts	9.456
vi) Closed BJMC's Jute Mills liabilities	0.77
vii) Interest on Bonds	4.00 (Appro.)
viii) Compensation to private Banks for writing-off Jute sectors previous debts.	0.68
Total	51.306

However, in return government has received only US$ 50 million e.g., around Tk. 2.10 billion. It may therefore be mentioned that JSAC was financially inequitable to government.

MAP SECTION

IBRD 24206R



MARCH 1995