Industrial Credit Administration : Some Qualitative Aspects

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THE economy of Bangladesh is characterised, among others, by narrow industrial base, low per capita income, low capital formation, massive unemployment and underemployment, heavy dependence on external aid etc. Industrial sector contributes only about 9% to GDP of Bangladesh registering almost no significant growth during the last few years which indicates a poor performance of the sector.

When loans are sanctioned to industrial units, they are supposed to contribute for attaining some of the broad economic objectives and these are:

a) contribution to GDP; b) import substitution; c) export orientation and d) employment generation.

Unfortunately none of the above objectives could be achieved, as foreseen, during the last two decades when considerable amount of credit was disbursed to a good number of industrial units. Different studies suggest that under poor appraisal and recovery performance of the lending institutions an unusually high portion of the industrial credits has already turned into bad and doubtful of recovery and if adequate provisions for bad and doubtful debts are made in financial sector, all these institutions taken together will theoretically be insolvent. The reasons for these bad and doubtful debts may be primarily attributed to resource constraints, inefficient credit administration, currency rate fluctuations and absence of locating real entrepreneurs.

However, the whole process of the industrial credit administration may be divided into three major phases - namely i) Sanction of Credit including project feasibility and appraisal: ii) Disbursement and follow up of Credit, and iii) Recovery of Credit including legal action and disposal of projects. This article deals with only lone term industrial credits specially those extended by DFIs and banks in setting up the industrial projects and existing projects under BMRE.

Sanction of Credit

Feasibility report and Appraisal report including identification of real enterpreneurs are the useful guidelines indication credit recovery prospects but unfortunately, in our country, these reports have proved to be simply paper work when these are far from practically achieved performances in most of the cases. This part of the credit administration should be managed with vital care and emphasis because once the money is placed into wrong place it will attract high risk as to realisability.

Study reveals exaggerated and superfluous feasibility report, wrong appraisal of credit proposal, selection of fake enterpreneurs, time-lag in processing the case, undue influence by pressure group, procedural rigidities, inappropriate priorities imposed by funding agencies, borrowers unwillingness to repay loans and other related factors have led the industrial credits into doubtful of recovery. On the other hand industrial credits diverted to other unproductive sector has contributed to high inflation. As a result of unhealthy situation in credit administration, real enterpreneurs are driven out of credit market. This is another instance of bad money chasing out the good.

It is essential that DFIs and banks select the real credit users. Now the question is — who is real credit users? This should obviously be defined and practiced by DFIs and banks personnel through their expertise and professionalism by using different techniques and obtaining useful and correct information. Inspections of sponsor's records and different relevant studies will also be helpful in this regard. High professionalism, efficiency and independent but accountable working system should be developed and be strictly adhered to while sanctioning the credit.

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Disbursements of Credit

Disbursements of credits are made in accordance with a schedule prepared at the time of sanction of credit subject to fulfillment of certain terms and conditions as specified in the credit agreement. Inordinate delay in disbursement of credit leads the projects with the burden of cost overrun and ultimately pushing a viable project into a non-viable or losing concern due to a heavily accruing financial charges and undue higher depreciation on elevated cost of project assets. Study reveals that delay occurs mainly due to borrowers inability to mobilise timely owner's equity (specially the portion of cost overrun), subsequent decay in interest of borrowers in projects for various reasons, procedural rigidities followed by DFIs, banks and other agencies. It should be kept in mind that the longer is the project implementation period, the higher will be the burden of financial charges.

Recovery of Credit

It is normally expected that projects will repay its loan liabilities as per repayment schedule agreed upon out of operational profit to be generated by the project. When projects are unable to repay its loan either fully or partly these may be catagorised as willful defaulters, stuck-up and sick projects and projects attaining poor performances and accordingly need emphasised follow up. The main reasons for genuinely sick and defaulting industrial units to repay the loans are poor market conditions and unhealthy competition, sectoral problems, lack of raw materials, technical faults, management inefficiency, lack of working capitals, many of which, on the other hand, could at least be foreseen, if not solved, at the time of project appraisal.

Concessions are allowed to projects either in pursuance of policy decisions or upon requests of the enterpreneuers by way of rephasement or rescheduling of overdue loans alongwith interest thereon, or remission of dues. But remissions of loan to the willful defaulters obviously discourage genuine enterpreneurs and good borrowers to repay their dues.

It has been observed that because of higher credit burden, projects poor operational performance and some other factors responses to notices for direct sale are bleak specially with regard to offer of huge cash.

Conclusion

The responsibilities for this poor state of credit administration should be attached with the Government, state-run DFIs and banks, funding agencies and sponsors of defaulting enterprises.

Genuinely sick projects obviously deserve special attention for rehabilitation depending on the problems faced by the respective projects. Willful defaulters should be pressurised including extra legal actions against them to repay their loans. DFIs and banks personnel should be held accountable for wrong appraisal and failure to monitor the projects properly.

Defaulters should not be allowed to take further loan facilities from financial sector (sometime abandoning their previous defaulting projects) nor they should be allowed to use the project money otherwise suspending repayment of loans. Extra legal actions should be taken against willful defaulters to revert the ideas of some borrowers that loans taken from nationalised DFIs and banks are not payable or repayment may be escaped under some pretext or otherwise.

Frequent publications of defaulters list in the dailies may be helpful to recover the loans and to prevent them from availing further facilities from credit market.

However, on the whole, political will of the Government is prerequisite to streamline the industrial credit administration including recovery of outstanding loans from defaulting borrowers to salvage the financial sector which will enable DFIs and banks to recycle the loans for establishment of new industries to achieve our national economic objectives. Furthermore, the borrowers with good repayment records should be encouraged by rendering them financial incentives i. e., partial refund of interest, tax incentives etc.

Green Giant Moves the Broccoli Line South

Mexico is expected to join the United States-Canada free trade area. In anticipation, US companies operating over the border are moving their operations into Mexico, where wages are low and union pressures fewer. Twenty-five frozen food companies have moved to the farming centre of Irapuato. Mexico and the US hope this will help to stem the flood of migrants moving out of Mexico, but, reports Gemini News Service, this will not necessarily happen.

by John Ross

THE casual visitor could imagine t hat he was in a small central valley town of California. In fact Irapuato, in the Guanajuate region, is a farming centre in the flat, fertile plain 150 miles north of Mexico City, where the minimum wage is $4 a day.

That is one reason why 25 US frozen food companies have moved most of their operations 1,500 miles south of the Californian border.

As the free trade agreement between the US, Canada and Mexico inches towards reality, the prospect of disappearing tariffs attracts Californian production lines to places like Irapuato.

In January the frozen food company Green Giant, part of the London-based Grand Metropolitan empire, moved its entire broccoli and cauliflower lines here, laying off 382 workers in recession-riddled Watsonville. Every week brings half a dozen US, Canadian and Mexican and even Japanese representatives here to check on the possibilities of renting growing acreage.

When Green Giant opened up in Irapuato next door to Del Monte and a town away from Birdseye it was employing 1,100 workers in Watsonville. Now barely 100 are left while in Irapuato the workforce has grown to 1,000 at peak season. It is estimated the company will save about $6 million a year in pay and benefits.

Spokesman Terry Thompson says salaries which averaged $7.51 an hour on the broccoli line are not the whole story. Most Green Giant products are now sold on the US east coast and it is easier to grow, pack and distribute from Irapuato via the company's Ohio operation than from Watsonville.

What Thompson does not add is that there are few unions here like the American Teamsters to give vegetable workers ideas about organising for a living wage.

Near the heart of the impending free trade agreement is the movement of Mexican workers across the US border. Although migrant labour is not included in the negotiations the problem is never far from the thinking of Mexican President Carlos Salinas. In his view the re-location of industries like Green Giant will eventually dry up the flow of his countrymen across the border.

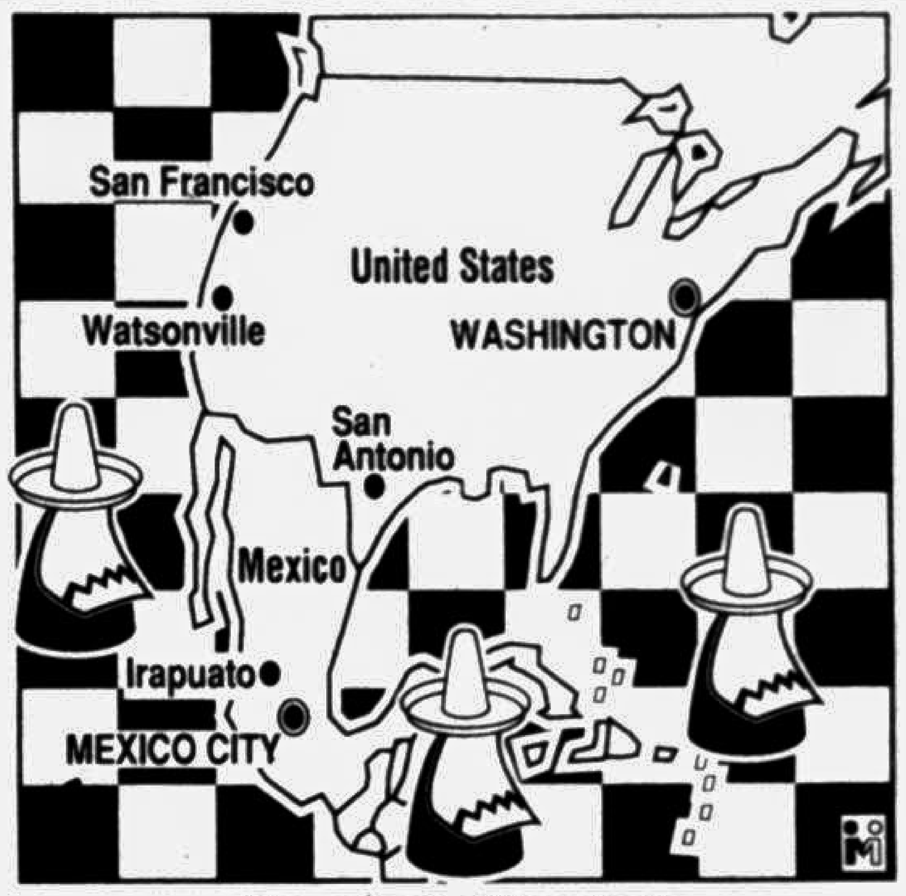
In San Antonio, Texas, the President told businessmen and trade union leaders that if an agreement was not signed the traffic north would rise and further threaten US jobs.

On the same day two Green Giant workers, Lauro and Yolanda Navarro, who have decided to stay in the US despite losing their jobs after a total of 33 years of vegetable packing, stood in San Francisco's Levi-Strauss Plaza, to announce a Grand Metropolitan boycott and to support displaced Levi workers.

The jeans makers have moved their operations to Costa Rica and Mexico. Says Lauro:

"This free trade thing is not going to stop our Mexican brothers and sisters coming up here. Everyone wants a decent wage."

Antonia Heranandez, President of the Mexican Legal Defence Foundation, agreed: "Free trade is going to draw people from the plains to the cities of Mexico and it is going to cost unskilled workers jobs in the US, but it is not going to halt the flow of workers from Mexico to the US for a long, long time."



The pawns of free trade

Even in Irapuato many doubt that the Green Giant project will keep Mexican workers at home. Calls on homes in the colony abutting the Green Giant fence showed that many workers were planning to go north again.

Veronica Roman liked working at Green Giant which she said was "very, very clean," but her brother-in-law had just left for Houston where he had a $50 a day gardener's job lined up.

Dolores Munoz had quit the broccoli line that week to return to Los Angeles where her son was born and where she can sew in a sweatshop for $180 a week.

She said: "It's the money that counts. I'd really like to stay here but who can live on what they pay you here?"

Back at her Irapuato union headquarters organiser Berta Salinas was sighing: "These people are being moved around like pawns in a big chess game.

That's what free trade is going to mean for a lot of Mexicans."

— GEMINI NEWS

John Ross is a poet-activist-reporter with 30 years' experience South of the Rio Bravo.

Pieces of European Economic Jigsaw Just Won't Fit

A European trade community of 12, 19 or or even 24? With increasing talk of eastern European countries joining the European Community, the seven nations of the European free Trade Association are also knocking on the door. Nineteen countries are currently trying to negotiate a European Economic Area. They are not getting very far. There is deadlock as the deadline of June 24 approaches. Gemini News Service reports on a European economic tangle. By Etan Vlessing

DEADLOCK in talks between the 12 European Community (EC) nations and the seven economies of the European Free Trade Association (EFTA) is making it more, rather than less, likely that the EC will grow from 12 member nations to 19 — the opposite of what the negotiators firs intended.

The talks in Geneva aim to create a 19-nation western European Economic Area (EEA) of 380 million consumers. EFTA comprises Sweden, Norway, Finland, Iceland, Austria, Switzerland and associate Liechtenstein.

Stumbling blocks to deciding how power between the two trading blocs should be jointly shared and policed include Switzerland and Austria looking to deny Community lorries free passage across their Alpine roads and Iceland guarding its waters against free trade in fishing.

Officials from both sides locking horns in make-or-break talks have imposed an deadline of June 24. Besides fisheries and transport, issues yet to be resolved include agriculture and a proposed fund by which EFTA members would help subsidies poorer EC members like Portugal and Greece.

The irony is that, without agreement on an alternative EEA free-trade zone, Brussels will find it difficult to deny powerful economies like Sweden and Iceland eventual EC membership when talk is growing of bringing on board poorly performing East European countries.

Extending political and economic union within the EC to the EFTA members goes to the center of the current debate on the future shape of the single European market after 1992.

Voices within the existing EC twelve have long urged that the community should be broadened to include members of a larger, "European home." EFTA members, many of which have long wanted to become paid-up members of the EC, are natural candidates.

In the last year EC membership for Poland, Hungary and Czechoslovakia in particular has been urged to create a European home of 24 nations from the Atlantic to the Adriatic.

Those holding that consolidation and enlargement of the EC must go together argue that existing EC institutions have not yet evolved to where they could absorb non-Community neighbors without putting full EC political and monetary union in Jeopardy.

Also Austria, Finland, Sweden and Switzerland are neutral politically and might hinder steps to a full EC defence bloc.

Precisely because of this, Jacques Delors, President of the European Commission, proposed the idea of the EEA two years ago. He intended the free trade zone to act as a holding stage during which EFTA could trade with the twelve while queuing for eventual membership in the single common market after 1992.

The seven members of EFTA are driving a harc bargain. They want the full economic benefit of free trade which retaining their national sovereignty, coupled with the guarantee of eventual membership of the EC.

Allowing EFTA to back both horses and create a waiting room for EC membership rather than an alternative to it, as Delors envisaged, is something Eurocrats in Brussels are bargaining against in their talks.

They want the EC to take the key decisions on the EEA members to follow suit. But submitting to Brussels in this way, suggest EFTA officials, would be worse than joining the EC where the seven would at least play a full decision-making role in shaping EC law in Brussels and Strasbourg.

In recent months, Austria, Finland and Sweden have made no secret of their wish to join the EC as early as possible,

Neutral Switzerland, of all countries, has threatened to bow out of the EEA talks and simply to push for EC membership. In this climate, any EEA agreement is likely to be shortlived.

Talks on full membership for EFTA members could start as early as 1993 and bring accession in 1994 or 1995 — well ahead of predicted membership or the East European "fast-track" economies in 1999.

Already prominent Eurocrats like Sir Leon Brittan, the British EC commissioner, have raised the possibility of another set of intergovernmental conferences to follow the current one on EC political and monetary union which might accommodate and enlarged community of 18 or 20 nations.

Concluding the current EEA talks reflects, then, Brussels' difficulty in maintaining stable relations with non-EC neighbors.

They would seek greater trade with the Community while rejecting its political controls, as in EFTA, and with those whose economies were not yet up to allowing EC membership as in Turkey, Cyprus and the newly-created East European economies.

If Brussels cannot maintain this balancing act between consolidation and enlargement while concluding current negotiations with EFTA, what optimism can there be for addressing later the demands of East European economies now knocking at the door of full EC membership?

Failure to keep East European nations at bay, as appears now impossible with EFTA, holds out the grim prospect of "a three-speed" community moving towards eventual political and monetary union.

This would see West European nations like Germany and France moving faster towards political and monetary union than less enthusiastic nations led by Britain, and more swiftly still than East European economies lagging even further behind.

All of which suggests the train to full EC integration from the Atlantic to the Adriatic would eventually move slower than even the doubters have envisaged until now.

— *GEMINI NEWS*

The ins and outs of EC and EFTA

European Community (EC) and European Free Trade Area (EFTA) came into being about same time – late 50s

EFTA

HQ: Geneva

Treaty of Stockholm signed between Dec 29 1959 and Jan 4 1960

Seven founder members

Britain and Denmark left Dec 31 1972. Later Finland Portugal, Iceland joined

Now seven members (Liechtenstein associate)

EC

HQ: Brussels

Treaty of Rome signed March 25 1957

Six founder members

Britain, Denmark, Ireland joined Jan 1973, later Spain, Portugal, Greece

Now 12 members

2430

The Boom City of India that Grows and Grows

As the first results of the Indian census emerge one finding is expected to show that the fastest growing city in India is now ancient Surat, in Gujarat. In another ten years it is expected to be the fourth biggest. Its industry is burgeoning and people from many parts of India are moving in. Gemini News Service examines why the people of Surat believe their city is where India's tomorrow is. by S. Muthiah

THE census taken in India in February has revealed that the population is now 843,930,861—a quarter bigger than the last census figure ten years ago.

The figure is preliminary. It will take many months before details are available, but one finding is expected to show that fastest growing city in India is now Surat, Gujarat, on the west coast.

The 1981 census showed Bangalore to be the fastest growing -75 per cent up from 1971. No one was surprised. The cantonment town has everything going for it - a heritage of industry, a cosmopolitans town with a beautiful year-round climate, a reasonably educated workforce, good connections with the rest of India and an atmosphere of peace.

The last is all that Surat has had going for it. Yet over the last decade it has more than doubled its population and is now likely to come out at 1.8 million heads.

In the last five years it has doubled its municipal area to 110 sq km and traffic has increased 150 per cent to 285,000 vehicles - a sure sign of boom.

Sandwiched between the coast and the River Tapi, the ancient city has a long history as an entrepot. This trading history has been shrewdly converted into industrial success by had-working citizens and others who have been welcomed from all parts of India by virtue of the city's impeccable record of communal harmony.

The Mughals developed Surat as a commercial city, It produced high quality handwoven textiles and gold thread (zari)., silver and wood carvings and at one time all the Empire's East-West trade passed through it.

Arabs and Jews of West Asia, fleeing Zoroastrians from Persia - in time known as Parsis - the Portuguese , Dutch and eventually the British were attracted there and developed it as one of the most prosperous trading communities in India.

The rise of the Maratha Empire under Sivaji reduced the Mughal influence and then Bombay, acquired by the British in 1661, developed as a main trading base and Surat went into decline.

The seafaring Curtsy began to look overseas and when the British opened up Africa they followed them there. Much later, when African states reduced their Indian populations Curtsy were among the thousands of Gujaratis who settled in Britain and United States.

The beginnings of the city's re-birth came with the textile boom in Western India after the turn of the century. Today Surat produces Rs 30,000 million worth of cloth, most of it synthetic. Surat makes half India's man-made filament fabric.

The largest manufacturer of synthetic sarees and dress and materials grew from a small Surat handloom unit. The owner says he always knew fortune would smile on Surat because its name means "the face of fortune."

Surat has other major industries. Forty per cent of India's leading export, polished diamonds - more than Rs 15,000 million worth - are cut and polished in hundreds of factories in the city.

Large numbers of people have to come to Surat from Palampur, north Gujarat, the home of possibility the world's best diamond cutters and shrewdest traders.

Almost all the gold thread, zari, made in India is still produced in Surat. It also virtually monopolises the making of elastic for clothes and stop-cocks for plumbing .

New industries are taking root in a suburb, Hazira. Eight heavy gas and petrochemical industries have begun to take shape after an investment of Rd 50,000 million in the last few years. They could well make Surat the plastics and chemical capital of India.

At Census 2001 Surat may be the fourth biggest city in India with a population around five million.

Much of this has happened because of the talent and hard work of the Surtis, which they mix with a happy-go-lucky attitude life and their love of a good time - both unusual characteristics among most Indians.

Such attitudes have ensured almost no labour trouble, a great deal of equality for women and encouragement of women workers. All this has attracted thousands to settle in the city from all over Indias.

The staid Palampuris, the pushy Punjabis and Haryanvis from the troubled states of north India, a large and docile South Indian administrative population and a 20 per cent Muslim population live and work in harmony in the congested city.

Land prices may have shot up and tax collection may be the highest in the whole of prosperous Gujarat, but none of this seems to worry the people of Surat.

What they see is revolving restaurants, mirror-screen theatres, hovercraft services—all the first in India—and five-star hotels being set up faster than anywhere in the country.

Surat, its citizens confidently predict, is where India's tomorrow is. —GEMINI NEWS

Exchange Rate $1 = 19.7Indian Rupee