

Jute Sector Reform must Not be Delayed

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This aggressiveness of Indian exchange rate policy is not only affecting the jute sector adversely, but it is also affecting other export and domestic industries. Today very little smuggled goods are going from Bangladesh to India. Products are coming the other way round. Why? Because of the unrealistic exchange rate policy which we are following today.

The World Bank itself has calculated that 40 per cent of the public sector losses between 1983 and 1991 could be accounted for by the exchange rate over-valuation. Our association has done the same exercise but we have gone back to 1972. We have calculated that 100 per cent on the losses of the sector is explainable by that one factor alone.

As far as the internal problems are concerned, a lot of those have been identified and we are very hopeful they will be resolved with the implementation of the JSRB programmes. I do not agree with what a lot of the people have said about capacity. There is an over-supply situation. And it is about time that we did reduce our capacity. What the government has done, we must also appreciate, is close down inefficient mills. But rest of the sector is still running in two shifts. They have 50 per cent additional capacity. When the industry does well, we can always increase our capacity.

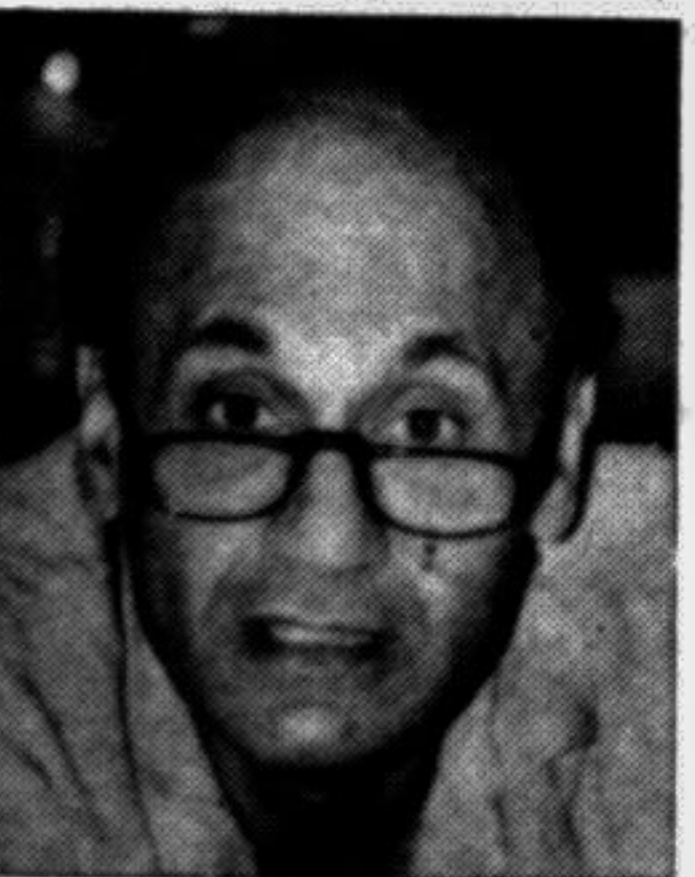
Privatisation of the public sector mills is an absolute must, the quicker, the better. Financial restructuring is ongoing. A lot of benefits are given. We do not think it is sufficient, but it is in the right direction. The government has also undertaken under the JSRB programme to provide technical assistance to improve productivity and we are sure we are going to benefit from that.

There are a number of problems with JSRB itself which we have taken up with the government and hopefully we will be able to resolve these. The problem lies mainly with delay in implementing the project itself. A lot of things have been said but nothing has been implemented so far.

Again, the time factor given to the private sector is too short. We have virtually been given 12 months.

The finance quantum is also fairly inadequate. I cannot stress how difficult it is for the jute sector to get finance and that probably is the biggest internal problem we have. If we can get the finance, the problem of over-manning, productive investment on gas generators to reduce the electricity costs, balancing, all these can be resolved.

Owais Sadat: This is, as usual, an outstanding effort by you and the Daily Star to bring together all the luminaries here. We are very honoured to be able to participate.



Owais Sadat

The success of this programme is really predicated on timely implementation of all the commitments which were made. Every day, every month of slippage means more loss for the exchequer, more losses for the taxpayer in Bangladesh. After all, whenever public enterprises are making losses, ultimately the taxpayer has to pay that, either through the banking system or through the budget.

I think we wish to go on record to congratulate the government of Bangladesh for showing the vision and courage, and to embark on a very bold and badly needed programme. It is not restructuring, it is really a revival of the jute sector. We appreciate the difficult decisions the government had to take. We do realise that the government had to take a decision for the legacy of the past. This is an issue on which the government has really shown its resolve.

It has not tried only to put the jute sector on a sound basis, but is also protecting the financial integrity of the banking sector. As you know, the jute sector owed US \$900 million to the banks and in the

same stroke, the government is also trying to bring discipline and resolve the issue. This was a very difficult decision. We have spent long hours with the government discussing this issue. It may seem that the government has succumbed very easily to some pressure or the other, but I can tell you we had a very tough time negotiating this and we admire the tenacity of the people on the other side in terms of convincing us. Each point of the programme was looked into.

Having said all these good things, the point I want to look at is the concern on our part. The success of this programme is really predicated on timely implementation of all the commitments which were made. Every day, every month of slippage means more loss for the exchequer, more losses for the taxpayer in Bangladesh. After all, whenever public enterprises are making losses, ultimately the taxpayer has to pay that, either through the banking system or through the budget.

There are four areas that I would like to mention. The programme is predicated on five components and there has been a slippage in the implementation of those components. It's predicated on a closure programme which was supposed to have been completed by June. It is predicated on a privatisation programme which is to be completed by August. It is already late.

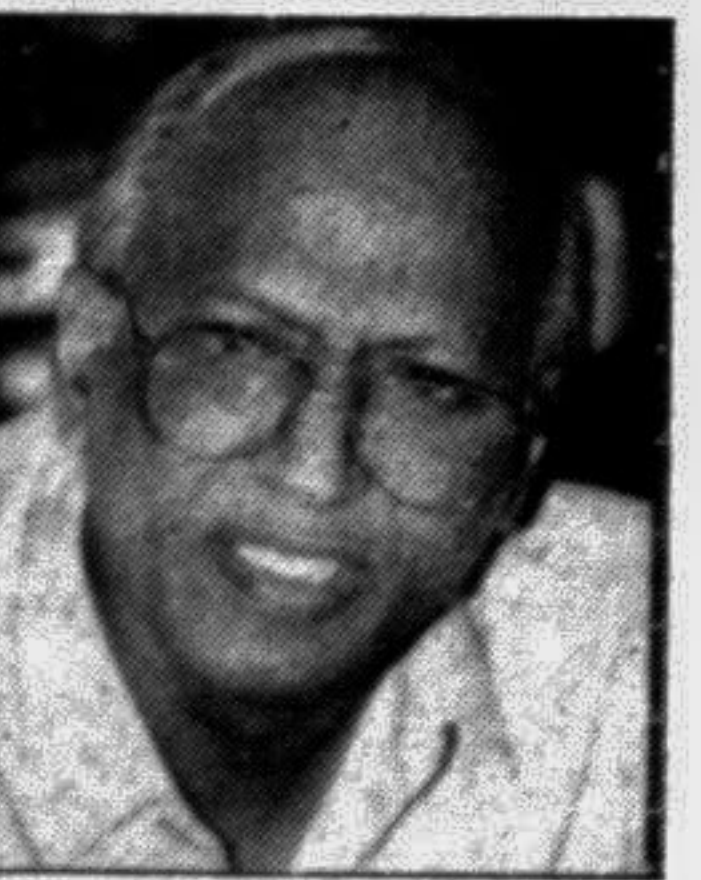
Restructuring of past debts of these mills is very important. The banks need to know, where they stand. We have an interim financing problem. We have been working very closely with the Ministry of Finance and I think they have been very forthcoming, but I think some of the wrinkles have to be ironed out. And finally I would say that the training programme, which is extremely important for workers to increase productivity. As for those workers who are going to leave the jute industry, they must be retrained so that they can be reemployed in other sectors. I think these are the issues.

So, with a note of cautious optimism, if these things happen by the end of December, we should still see that the programme is on track. But we are getting a little concerned that it is slipping already.

Mahfuz Anam: Once we finish going around the table, I think we will focus on the programme which Mr. Owais Sadat has termed, not as restructuring but "reviving" the jute sector.

Dr. Mobin (Joint Secretary, Finance Ministry): A lot has been said about the entire gamut of jute. There is not much left for me to add. As you have already mentioned, the details of the on-going restructuring programme would be discussed later, so at this stage I only have few remarks to make. I will very briefly describe the major components of the restructuring programme, so that a meaningful discussion, a more specific discussion of the problems of the programme, may be brought out later.

For the jute restructuring programme, various efforts have been undertaken by the government to give succour to the industry over the last two decades. These are sometimes in the form of price support for jute produced in the country, export subsidy, access to various credit facilities, segregation of credit, export rationing and so on.



Dr. Mobin

Somebody said that jute was doing all right, it was making a profit. But at whose cost? The banks were made to pay for the various hidden or apparent losses of the jute industry and the result is, now we have a jute industry debt which is non-performing and which is crippling the ability of the financial institution to play its due role in the economy of the country.

These have been attempted by the government, and in the process what have we found? Now we are landed with a problem which is virtually stagnating the expansion of the financial sector. Some of the

banks are exposed to the extent of 30 per cent of the total advances and that 30 per cent has become totally non-performing, putting the banks in a really difficult situation.

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Then we have mills which are over-burdened with excess workers and high cost of production. It is the realisation that these various earlier efforts which were marginal and ad hoc in nature, wouldn't solve the problem. So a fundamental change is envisaged and that is why the jute restructuring programme was taken up.

The major component of that adjustment structure involves, one, the down sizing of the industry, which actually means closure of very badly performing mills. Then there is the separation of excess production and non-production worker. It is not the production worker only, it is the non-production worker, including the employees engaged in the BJMC.

Then there is the reduction of production costs. This is a very crucial part. This is being sought to be achieved through improvement of productivity, through training of the workers and managers who would be retained. Of course, privatisation is another aspect of that programme.

Then restructuring of the past debt and liquidation of the debt of the closed mills. Access to working capital finance for the mills under a loss-sharing and loss-reduction formula during a specified interim period at the end of which there would be no access to finance by government directives. There would be access to finance only on the basis of merit and on the market ability of the mills.

In addition, under the programme, the government has offered the retrenched workers of the mills and factories, social safety net measures which include payment of substantial separation benefit in cash and retraining facilities and also introduction of various schemes for them to take up self-employment activities.

Let me say what we have been doing for financial restructuring, a very important component of the restructuring process. Since the introduction of this scheme, we have liquidated all the debts of the four closed mills. Huge debts on account of BJC have been paid by the government. So far, the government has paid over Taka 1000 crore to banks on account of the jute sector losses, accumulated losses of the jute industry and public enterprise involved in jute trading.

A payment has been made to the tune of Taka 550 crore to the banks on account of the losses made by the mills during the last two interim periods. There is still a part of the interim period to go, and the estimate shows that this will go up to Taka 700 to 800 crore, which would be borne from the government budget. That means tax-payers' money would be spent for bailing out the jute mills.

Let me make this point clear, that the interim period is actually a specified period and I disagree with what Mr. Monirul Rahman has said that he has got only five or six months left. The whole programme was actually negotiated and it started two years back. And in the whole negotiation process the BJMA was intimately associated and they knew what would be the interim period and from which date it begins.

The first interim facility was given to the jute mills in 1992-93. And later on there was another interim facility given and the assumption all ways was that during this period there will be a conscious effort on the part of the mills to reduce costs. It is not an open-ended programme but a loss-reducing one. During the interim period the mills are expected to improve efficiency and productivity, and thereby reduce the loss-financing.

The government was trying to give them some support during the interim period so that at the end of it the mills would be on their own. But still the debts were restructured with a three-years moratorium, meaning that on the debt burden there would be no payment. And it was expected that the mills would not only be enhancing their productivity through their various trading efforts but also make some adjustments in the equipment and the management so that when actually the mills start to repay on the accumulated debt at the end of third year they should be in a position to repay the loan.

Let me close by saying that

the government has also taken liability of paying to the banks one third, which would be restructured. The one third of the amount is written off by the banks on account of the mills. And there is an approximate estimate that this comes to Taka 658 crore which would be paid from the treasury. So in the process of jute restructuring, the tax payers would be paying on account of jute mills to the banks an amount which comes up to over Taka 2.2 billion.

Mahfuz Anam: Thank you Dr. Mobin. Just one question in relation to the figures you gave, sometimes it has been said to us that basically the jute restructuring programme is not so much meant for the jute sector as it is meant for the banks.

? I would like to ask, is the jute sector actually getting access to bank finance without any reference to its ability to pay back? The access was given under government directives. These mills were making losses and they were bailed out by the banks. The mills are clear but the banks are in the red and the banks are being paid from the public money.

Dr. Shamsul Haq (Director of Institute of Business Administration, DU): I would like to mention a few points about international competitiveness of the industry. If we have to compete internationally, we should get foreign exchange at competitive levels. Moreover, bank interest rate here is very high in Bangladeshi context.



Dr. Shamsul Haq

If we want to be competitive internationally, we should allow interest rates to be determined on the basis of the demand and supply of money, of which you know in Bangladesh we have plenty of reserve. I think the interest rates worldwide are moving towards three to four per cent. So my suggestion for the industry as a whole would be to allow bank interest rates to be brought down or these industries should be allowed to get money at low rates of four to five per cent, as the government is borrowing.

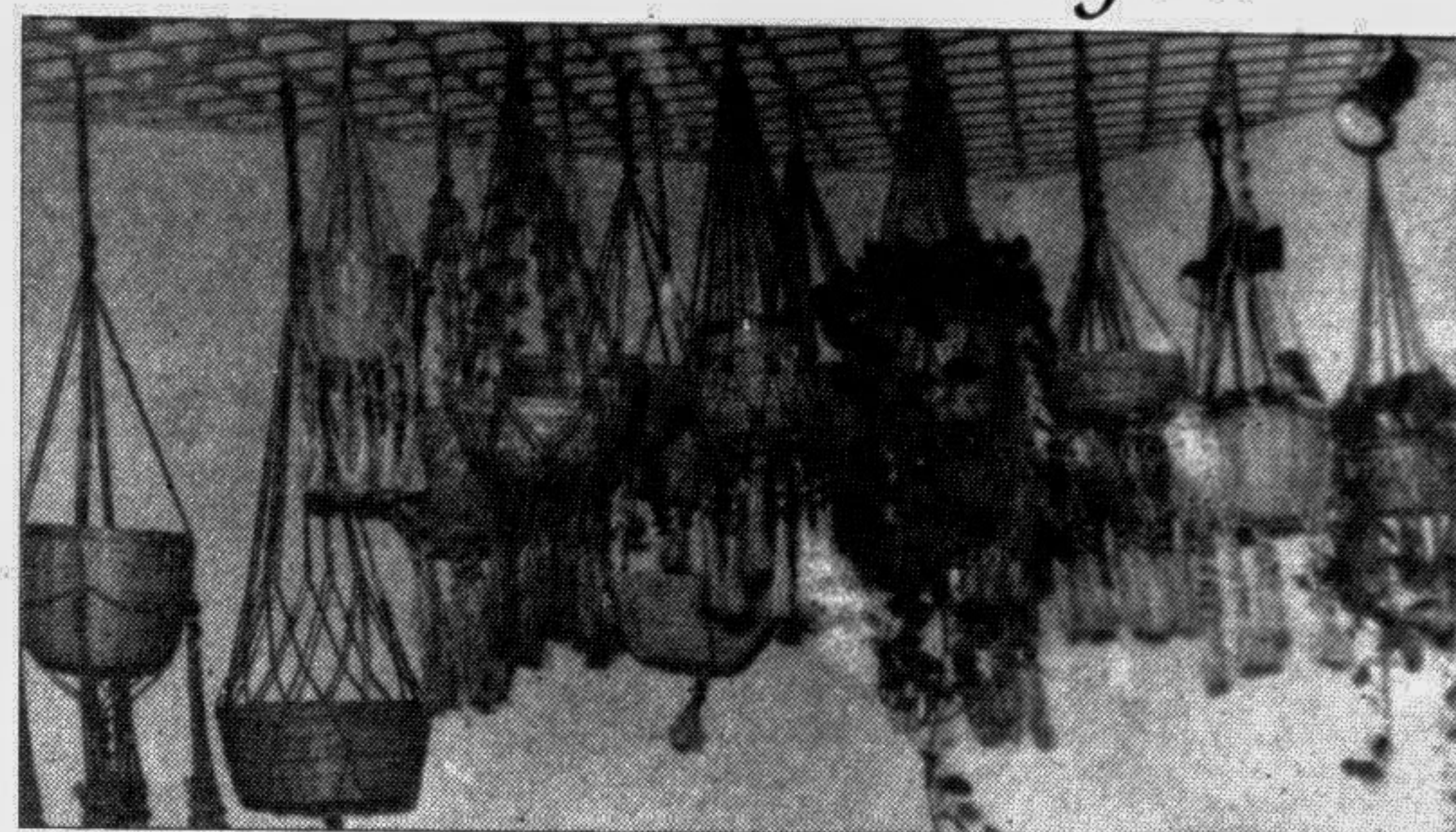
As was pointed out, wages and salaries in the jute sector cost between 20 to 30 per cent depending on the size of industry. But bank interest for the small jute spinners comes to about 16 per cent. I guess for BJMA mills or BJMC mills it would be above 20 per cent. If we want to be competitive internationally, we should allow interest rates to be determined on the basis of the demand and supply of money, of which you know in Bangladesh we have plenty of reserve.

The government is borrowing at five per cent these days from banks. I think that JSAC has recognised that problem and is allowing the Jute Mills Corporation and Jute Mills Association a credit, at low rates. I think the interest rates worldwide are moving towards three to four per cent. So my suggestion for the industry as a whole would be to allow bank interest rates to be brought down or these industries should be allowed to get money at low rates of four to five per cent, as the government is borrowing.

The other concern I have is that in the jute sector credit, we have excluded the jute spinners association, the 34 mills that are included there, which is a growing sector. As Mr. Shamsul Islam mentioned, in Dundee he didn't see anything but yarn. So these are the products whose demands are again coming back.

This growing sector has been excluded from the jute sector adjustment credit. From whatever records that I have seen, I think there was no justification mentioned at any point that jute spinners do not deserve to be supported under that credit. Their debt burden was possibly less than others. But they were also indebted. I think, to the extent of over Taka 300 crore.

So we should not exclude a whole sub-sector of an industry from that credit facility. What would happen actually is that we will be creating internal competition within this country and they will be undercut-



ting each other in the international market. That will create a problem for the sector as a whole. As it is, the entire sector is losing money internationally. So if we start competing on our own ground, then I think that instead of strengthening the jute sector, this JSAC might actually harm it subsequently.

Mahfuz Anam: We have the last speaker before the minister comes on. Honourable Member of Parliament, Mr. Suranjit Sen Gupta.

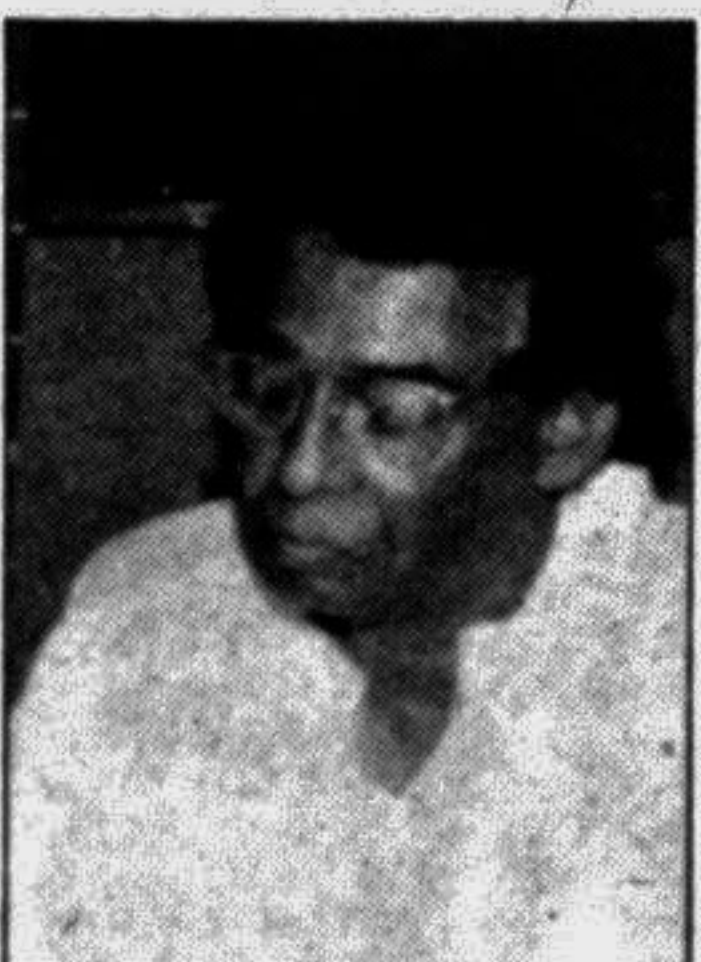
Suranjit Sen Gupta: As for the subject, "The Future of Jute", I think the future is bright but the present is full of darkness and crisis. There is no doubt about that. From what I have been hearing, it's clear that our export earnings from jute have reduced. When I go to my constituency, I find that the people who used to produce jute earlier are not doing so now. And the few who are producing, complain they are not getting the right price. And when I come back to Dhaka, I hear the same story: we are not getting the right price.

I have seen the functioning of the World Bank. I have witnessed the nationalisation process during the socialist period which was projected as very progressive work at that time. And after the 1975 change of government, the only progressive work turned out to be the process of denationalisation. There was so much denationalisation but one thing did not happen, that is industrialisation.

After denationalisation, the production did not increase. When people ask what's the contribution of jute to our national economy, we cannot give any answer. That reminds me of a story: a boy comes home from school and his father asks, "Did you pass or fail?" The boy keeps mum. His mother comes forward and says, "Why don't you answer?" The boy says, "Father is not asking the right question. I have neither passed nor failed. I have been demoted."

Similarly, in the jute sector we have gone down.

The same World Bank in India says increase jute production, increase industries. And in neighbouring Bangladesh, jute being the main sector of the national economy, World Bank says to reduce production. I really don't understand this.



Suranjit Sen Gupta

Jute is a very major sector in our national life, our cultural life, our economy. I think all major political parties including the experts should get together to hammer out a solution. We shall have to have a consensus on this. And what we need is a jute policy at the national level. On this we can take the suggestion of the World Bank but we will not depend only on it.

In 1979-80 the World Bank's prescription was to increase production. Three shifts were introduced, labourers were increased and this is how the manpower increased in this sector. And labour is such a thing that it is easy to increase but hard to retrench.

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For formulating this policy we will depend on the reality of our country, reality of the labour movement and the reality of the political perspective of our country.

As for the labour leaders, it will do no good to hold on to the old Marxist values. And, as for the rest of you, neither can you expect just to shed the past and adopt just the new. This would be an injustice. I understand my ministers' limitations as well. You cannot just solve all the problems in one seminar. Today my friend from the Finance Ministry said that still one of the major sources of export earnings is jute, in spite of all our failures.

Nationalisation did not take place in Bangladesh alone. It happened in Pakistan and in India. Today the new wave of privatisation is sweeping the world. Now it is the responsibility of all of us to contribute to that policy. Governments will come and governments will go. But development must continue. This must be the outlook. Our outlook has to be patriotic, in the interests of the country, of the state. We must increase our production of jute, our export of jute and our earnings through jute. The world has a new awareness. It has become environmentally conscious. Synthetics are being eyed warily. The prospect of jute has increased.

Look at geo-textile, at the prospect of pulp from green jute. It is not important under which government this is being done. It is a ray of hope for the nation. We have to go to the growers, pay them. When the government goes to pay, they do not really consider the jute growers. They consider whether or not they are from their own party. Whether they will count in terms of votes. Whether they can help in overcoming the political crisis. Such attitudes have brought us to the present state of affairs. So we have to work all together, not just shift responsibility from one to the other.

Mahfuz Anam: We now have the Honourable Minister for Jute Brig. Hannan Shah. And I would also like the other speakers to get themselves prepared for the next round of discussions which will primarily focus on the reforms that have been so far instituted. And of course we would like to look into the future. We have talked a lot about what has happened in the past and of our problems. Let us now look to the future and what policy directions we can adopt for that purpose. Now may I ask the honourable minister to respond to many of the issues raised, and perhaps give us a direction for the future?

Brig. Hannan Shah: We have said many things here today, but I think, the last speaker, Mr. Suranjit Sen has said some things which we can use to proceed ahead. Political decisions have brought us to the predicament of today in the financial sector and the jute sector. When you refer to the bonus vouchers of Pakistan times, even that was a political decision. Nationalisation was a political decision.

The Honourable Member of Parliament spoke my mind. When the days are rosy, we recklessly forge ahead, increasing the number of workers, increasing the number of officers. But now that there is a decline in the world market, where shall we take this surplus manpower?

I have discussed with the World Bank. The World Bank didn't make the recommendations alone. The recommendations have been made jointly by all, including the private sector. The World Bank, does and will, give advice but it is up to the government whether or not to follow that. This is a fact that, only after prolonged discussions and threadbare criticism of every point, did we come to a conclusion regarding reforms for the jute sector. There were many hurdles. Is it an end in itself? I am afraid not.

There are many things to say. First and foremost, what Dr. Shamsul Haq said about interest rates, we are in inter-

national competition. If we could get that interest rate plus one or two per cent more for service charge of our banks, I am sure our mills will do much, much better. That is one. Two, timely financing. We who are MPs, ministers, are in a position from where we see certain things. And if you are a bureaucrat, which I was for 23 years, we are the untouchables. We just pass orders and that is the end.

I will draw the attention of Dr. Mobin here. Do you know when we helped the private mills? Just a day before the end of the financial year, the money was paid. How long will the farmers give their products on credit? Still, I am grateful to the farmers for giving us credit. Dr. Mobin mentioned a figure of 2.2 billion taka to be given if restructuring is to be carried out. This is true. But it is also true that if BJMC got the value of the dollar as it was, then this would be four billion taka. Everything is recorded in Bangladesh Bank.

Anyway, better days have to come. There is definitely a silver lining. As far as jute is concerned, I am definitely hopeful, as the only jute minister in the world. We have neglected research on jute and jute goods. As a result, that old 100 kg sack has remained the same. We have not changed with the times. We cannot expect that an American or European labourer will lift a 100 kg sack onto a shelf anymore. Those days are gone. The pattern of market has changed. But unfortunately we haven't changed. Our realisation is late. The basic material is there. Now are we to continue with the traditional mills or are we to go for diversification or other uses of jute?



Brig. Hannan Shah

I thank The Daily Star for giving us this opportunity for having the interaction of ideas and knowing the problems. To me, every problem revolves around political decision. It is up to a politician to decide whether with one million taka he will make ten thousand primary schools or will construct a stadium where ten thousand men can witness soccer.

I want to remind you all, scientists say the strength of jute and that of iron is the same. Someone mentioned about assistance India is getting from UNDP. Well, we too have asked for assistance from UNDP and it will be coming. The World Bank has not helped India. But let us not go into that. Let us see to our own problems and identify them.

What are the problems? Overcasting, if I say that as a jute minister, both the performance of our mills and myself, our performance is better than others? Just take the burden of past debts away from my shoulders. The sacks which India sells for Taka 16,000, I sell for the same. We produce sacks for Taka 18,800 per ton. Some private mills produce it for Taka 18,000. Just think of the burden.

This additional debt burden is no fault of ours. Old political decisions have put this burden on us. When we talked to the World Bank, the rate of interest was calculated at three per cent, not the London bank rate of seven per cent. That is not possible. We can't simply do it.

The government took the bold step of restructuring, after much consideration. Studies started before we

came to power. Wrong decisions were made. That is only natural. But that does not mean we should take our time in carrying out the corrective measures.

Our labour leaders here have given sound statistical data. But they left out certain statistics which I want from them, that is about performance. In Bangladesh, if we employ double the manpower to produce the same cloth, wages are double too. We must pay attention to this matter.

Simultaneously, we are failing to give the worker a sound environment to work in. We are operating with 20 to 30-year-old machinery without proper spare parts. There is little standardisation, whereas in India and China, they are producing their own machines. They bring a sample spinning frame from Japan and make a copy of it. They are now making it, in collaboration with a British firm. But in our country, though we have so many jute mills, we have failed to manufacture our machines. We would import instead of manufacture our own. This was a major flaw on our part. Resultantly, we are suffering now.

Similarly, we tend to say privatisation will solve everything. But the government sector mills during the last two years have not performed any less than the private ones. We are always too busy blaming this government, or the past government. But why is this happening? Why is Adamjee Jute Mills incurring such losses? We do not identify the cause and go for the remedial measures. We know that if we take stern measure a public opinion mobilisation will take place and everything will be put under the rug. Fresh money will come in, we'll forget all the things and proceed on. The result is the same, a few days later the same erosion will take place.

The World Bank gentleman here said that he had guarded optimism and hoped that the future would go well. The basic thing is, those who do well should be rewarded, and those who do the evil should be punished. We haven't done that. But today BJMC is being punished. We have closed down four of its mills for bad performance and a few others are on the list for privatisation. Have we applied the same rule to the private mill owners? We have not.

I have at least, as a minister of jute, really benefited from your discussion and I can assure you that, as for the advice given by our senior colleague in the parliament, I intend, with your help and cooperation, to hold a political dialogue on jute outside the parliament.

I thank The Daily Star for giving us this opportunity for having the interaction of ideas and knowing the problems. To me, every problem revolves around political decision. It is up to a politician to decide whether with one million taka he will make ten thousand primary schools or will construct a stadium where ten thousand men can witness soccer. There comes the role of the politician, to decide the national priority.

I have found that we, the opposition and ourselves, do not disagree that national priority lies in formulating a jute policy for taking forward the reforms. We are not only to take these forward but also to bring to a successful conclusion the restructuring programme and revive our lost position in the international market.

It was I who insisted to the World Bank that we must have training packages. The World Bank has never addressed it before, this was for the first time they were approached on this. It is Bangladesh, it is the Jute Ministry, who sought co-operation in having training for both retained mills as well as those which had been separated.

Mahfuz Anam: Thank you Mr. Minister for your responses to the questions raised. It is extremely important that the minister will take initiative to call for a political dialogue in the area of a national jute policy. That really gives us a lot of hope.

Can we pick it up from there and quickly think what we want to see in the national jute policy? Can we now talk about the reforms that have been instituted? The good side and the bad side of these? I understand that the spinners have been left out from whatever incentive that is being given to others, which has put them at a disadvantage. Can we put our heads together on this and make suggestions about what we would like to see in the national policy that the minister just referred to. In this, I would like to call upon the major representatives of organisations, like the Jute Spinners Association, the Jute Mills Association, the Jute Goods Association to say something. May we have their suggestions please?

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