Rehabilitation of Sick Industries

Careful and Transparent Handling Necessary

by ABMS Zahur

Rehabilitation of sick industries may have to be performed in steps. Disjointed efforts such as waiving of interest on the loan or allowing them more working capital or extending them loan facilities for BMR or BMTE may not solve their problems

ONE of the objectives of industrial policy 1999 is "to rehabilitate deserving sick industries." The issue of rehabilitation of sick industries was not only given less attention, but also kept vague though it was included as one of the objectives in the industrial policy 1991. The objective was worded as "to create possible opportunities for revitalising and rehabilitating sick industries." This connotes the then government's lack of seriousness about the need for rehabilitation of sick industries. Might be they thought that solving the problems created during the past regimes was none of their concern, no matter whether the problem is local or national. The present government also could not yet improve the situation to any appreciable extent. But without proper commitment of government no appreciable result can be achieved. Only coordinated efforts by the ministries of finance, industries, agriculture and commerce can bring about some acceptable solution the problem. In fact the issue of rehabilitation of sick industries is closely connected with another objective of IP 1999, "to effectively utilize the existing production capacity."

It is difficult to get the exact number of sick industries in Bangladesh. However, it is learnt that around 2000 sick industries have approached the government for relief or support. For a least developed country, at the primary stage of industrialisation, such a figure may be considered fairly high and does not present a happy industrial scenario. As such a confusing and ticklish problem needs careful handling to attain success. Few hours of discussions in meetings dominated by generalists (majority without adequate background) is just not enough. Such handling may help in deterioration of situation further.

While a large number of industrialists are suffering from genuine causes the nation is facing the following problems:

* smuggling and growing tendency for unnecessary imports;
* block of scarce capital;
* wastage of skilled and semi-skilled industrial workers;
* block of precious and scarce industrial land;
* possibility for the genuine entrepreneurs leaving the industrial field and discouraging prospective investors to invest;
* possible loss of government revenue due to loss of production; and
* increasing rate of migration of rural workers to cities for employment thus disturbing the cities' eco-system.

We have been able to gather that following decisions were taken in the meeting of the standing committee on sick industries in the ministry of industries about two months and a half back:

(a) To submit a report on the implementation of the government decisions on rehabilitation of sick industries in the next meeting of the committee; and

(b) To take legal action against actual defaulters.

In the ministry of finance two committees are working. They are reconciliation committee and review committee. The first one deals with reconciliation of interest waiving cases. The number of cases under consideration is 1043. More than 1000 cases are pending with the review committee. It has been reliably learnt that the progress of work of both the committees has not been satisfactory.

Despite the government's dealing with sick industries for about a decade no clear policy has yet been formulated. To have some understanding as to why we have so many sick industries one may go through the study made by the price Waterhouse Associates (Australia) (study financed by UNDP) in the early eighties. Generally speaking, the main factors that may be identified for such deplorable state of affairs are as follow:

* non-availability of enough area/sectoral/sub-sectoral studies;
* inadequate background of investors;
* highly corrupt and inefficient administration;
* too weak data base and unreliability of available data;
* because of vagueness of idea about market demand no good projection of demand is possible. (As market analysis is costly, individual project owners avoid it.)
* smuggling;
* absence of technology plan causes victimisation of entrepreneurs by unscrupulous indentors;
* because of demonstration effect a fairly good number of new investors showed undue weakness for pomp and grandeur or wastage;
* too speedy liberalisation of imports.

Industrialisation is a long and arduous task. In developed countries it was achieved through trials and errors. They also had to tackle the problem of sick industries. It may also be admitted that sickness of industries due to domestic policy failures can be remedied through adopting appropriate corrective measures, sickness of industries due to external factors often proves irremediable.

No country, industrialised or semi-industrialised, is free from problems. The problem in Bangladesh is gigantic and serious because a huge government fund in a resource-poor country has been blocked to the great detriment of its economic growth.

In taking steps to rehabilitate the sick industries the government will have to concentrate on the basis of their importance from the economic and social points of view. It is to be seen how many of these industries are labour intensive, how many of these are desireable because of their high value added products, how many of these can contribute to export earnings, how many of these products' have become obsolete, how many of these are directly responsible for disturbing ecological balance. One of the broad strategies of industrial policy 1999 is to undertake development of industrial zones "with a balanced geographical dispersal of the zones with growing potential for the utilization of local resources." Thus it has to be considered as to how useful these industries are to the people of the localities concerned.

A full survey has to be undertaken to understand clearly the present situation of the sick industries. The survey team should be constituted with one representative each from the ministries of finance, commerce, industries, agriculture and environment and Bangladesh Bank. Technical advice to the team may be provided by a body of experts consisting of an economist, a chartered accountant and a good quality experienced mechanical engineer. It must be ensured that no partisan attitude can be traced in the survey report and recommendations. However, political interest of the country cannot be ignored. To elaborate this point it may be stated that the sick industries of northern and western zones deserve greater sympathy than their counterparts in the eastern zone because of their less advantageous situation. The disadvantages of industrialists of western and northern zones are as follows:

(i) As location of their industries are relatively further from the main markets (Dhaka and Chittagong) their transport cost is higher;

(ii) As these industries have to depend on furnace oil because of non-availability of natural gas, the per unit production cost becomes higher compared to eastern zone's:

(iii) The situation of power supply is much more irregular than in eastern zone;

(iv) Easier availability of spare parts of industrial machinery and better facilities for repairwork of these machinery in eastern zone.

Because of lower-level of industrialisation the majority of sick industries of northern and western zones involve relatively in simple manufacturing (such as brick manufacturing, rice husking, simple agricultural tools). Because Khulna is a less developed port even labour intensive simple assembling type of industries (such as readymade garments, leather products, electronics etc.) could not flourish.

Rehabilitation of sick industries may have to be performed in steps. Disjointed efforts such as waiving of interest on the loan or allowing them more working capital or extending them loan facilities for BMR or BMTE may not solve their problems. In identifying the sick industries for rehabilitation the following points may be considered;

* Whether there has been development of overcapacity (such as edible oil);
* Whether the industry is labour-intensive (such industries located in northern and western zones deserve special consideration because of their lower-level of development);
* Whether such industries were born sick;
* Whether the product of such industries have become obsolete;
* Whether such industries have strong possibility of entering export markets (even as suppliers to exporters).

Taking of proper measures for rehabilitation of sick industries has already been delayed. As such a high-level interministerial committee adequately supported by technical advisers may be set up as early as possible. Recommendations of this committee may be placed before the cabinet for appropriate decision. In solving the problem of sick industries we ultimately accelerate the process of industrialisation through creation of confidence among the genuine entrepreneurs, generation of employment, and reduction of flow of rural-urban migration.

The writer is a retired Joint Secretary.

Millennium Mental-blocks

Issue of National Debate

by Alif Zabr

It is a myth that the poor cannot be honest and dedicated. The problem comes in when the prosperity curve starts changing into an upward slope — the mental traffic congestion starts, akin to what is seen in Dhaka's notorious traffic jams. This rush is not a sign of true entrepreneurship, which is defined as offering new and better, and economically viable, services to the masses.

The fertile soil, the flowing waters cannot solve our perennial problems of the head and the heart. What else we want? That is the issuc of thc national debate.

RECENTLY two peers (religious leaders) near Dhaka fought it out with their followers during the urs (in the name of the Lord!). In another world of virtual reality (or real-time reality) two political leaders are fighting it out during this decade. The question is: Who are influencing whom? That is the issue at national debate in today's surging Bangladesh, seething with coiled-coil underground power, and deeper non-transparent motivations.

What is seen of the leadership (political, that is, what else — those of the tribe in the other sectors have been eclipsed due to over-drenching) is practised only in lip-service. The gift of the gab never had such a thriving time in Bengalee society. Presumably the tongues would not lie during the holy month of Ramzan. Then came Eid-ul-fitr, the day of embracing in public, in thanksgiving for the bounties from the merciful Lord — through the elected representatives of the people! Electing a person has lost its value, and worth. Principals have no anchor, and the proteges have not the mental strength to direct the moral arrows with the unwieldy bows our forefathers left behind. It is a cosmetic world of maya and glamour, armed only with Taka-sensing monitoring devices — the mundane triumph over metaphysical overtures.

Some followers have no leaders, and some leaders have no followers. But all have a common agenda to grind or regrind: make hay while the sun shines. Orissa was a near miss (from Bangladesh) — nature's signals and gestures have been kind to us during the closing year of the millennium. The year 2000 has three zeroes, and the zeroes in million and billion figures carry too much power to handle democratically. The cats on the hot tin roofs in Dhaka may dance in a style different from that displayed in Grozny. But the LCM (least common denominator) is similar: poverty alleviation, a gospel truth of platonic belief in the minds and projects of the leaders and the donor agencies.

To share the spoils of victory, feelers have been dropped by the competitors to reduce the span of the elected regimes to three or four years, from the usual five, necessary for gathering maturity. One ersatz gadget is already being implemented: the so-called neutral caretaker government (CTG) of non-politicians, because the politicians have self-confessed that they cannot run a neutral general election, but are very very eager and keen to run the country, regardless of capability. So, for some years, the non-politicians also showed a keenness to compete, to grab the spoils. What happens to the CTG? Thrown out unceremoniously after a few months' service of national importance, doing a job which the political *netas* are utterly incapable of grasping! Is such artificial respiration good for a budding nation?

A straight line, strangely enough, is not a stable entity in Bangladesh, the deltaic region of serpentine rivers, and sandbanks. The latter require navigational skill not available in the local talent. In computer calculations, there is the concept of floating point decimal (or something like that). Our politicians live a floating life quite different from that we read about in the ancient Chinese classics. On the other hand, our 'mahjees' (country boatmen) are more trustworthy and dedicated, notwithstanding the floating life they lead. Something is fishy in the operations on the *sonar maati*.

It is a myth that the poor cannot be honest and dedicated. The problem comes in when the prosperity curve starts changing into an upward slope — the mental traffic congestion starts, akin to what is seen in Dhaka's notorious traffic jams. This rush is not a sign of true entrepreneurship, which is defined as offering new and better, and economically viable, services to the masses.

We come to the last hurdle — the over-population barrier. It is of Himalayan proportion; and the nearness of the Himalayas not at all encouraging. The fertile soil of *sonar* Bangla, the flowing waters and the mighty wall to the North cannot solve our perennial problems of the head and the heart. What else we want? That is the issue of the national debate.

Financial Sector Reform in Bangladesh

Need for Expediting the Process

by M. Shahadat Hossain Russell

Financial reform is not only an economic decision but also a political one. But this political decision took a very long time to come in the past. Presently the fiscal cost of financing the financial sector reform is about Tk. 80-90 billion, which was less than half of it 10 years ago .If the reform process is delayed for another five years the cost will be doubled.

WITHOUT an improved and efficient financial sector, it is difficult to forecast significant economic development. The key components for growth — savings mobilization and efficiency in resource allocations — can never be optimized without financial sector reforms. Financial system in Bangladesh is very small. Its contribution to GDP has remained static at 2 per cent for several years. Bangladesh's performance in financial sector and the decline in the financial status of its largest banks are the examples of how these factors are negatively related upto now.

Financial system faces many problems in Bangladesh. High level of non- performing loans, low loan recovery rate of less than 5 per cent, local banks' inability to meet the capital adequacy requirements, extremely high spreads, rampant insider lending and fraudulent behaviour are the main problems of this system.

Financial Sector policies were subjected to profound change over the last decade and a half in Bangladesh: In 1984, two NCBs were privatized and private commercial banks were permitted for operation. In 1986 National Commission on Money, Banking and Credit was established.

To provide professional backup to the reform process the "Financial Sector Reform Project (FSRP)" was instituted at the Bangladesh Bank in 1992. In the first half of 1990s, the Financial Loan Court Act (1990), the Bank Companies Act (1991), and the Securities and Exchange Commission Act (1993) were under taken.

In the last half of the 90s a high powered Banking Reform Committee (BRC) was formed. Financial Loan Court Act, the Bank Companies Act, the Bankruptcy Act (1997) were incorporated .The Commercial Bank Restructuring Project (CBRP) is now going on. Recently some new laws have been drafted.

Structure

Financial system of Bangladesh consists of two sectors. One is the formal financial sector and the other is the informal financial sector. The formal sector includes Bangladesh Bank as the central bank, four nationalized commercial banks, 17 private commercial banks including two denationalized private banks, 13 foreign banks, 9 development banks — two of them target the agricultural sector and two other serve industry; one Government owned investment company, 17 non-bank financial institutions, 4 leasing companies, 27 insurance companies — the two dominant ones are in the public sector including one foreign owned; the Dhaka Stock Exchange and Chittagong Stock Exchange.

At this moment, there are four nationalized commercial banks — Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank. In terms of lending and deposit, these banks dominate the total banking sector in Bangladesh. NCB's have helped the Government's socioeconomic objectives by expanding their rural branch network and lending to agriculture, small scale and cottage industries and funding the SOE's.

In 1983, six private commercial banks were allowed to operate in the country with the objective of expanding credit facilities and accelerate the competition between nationalized and private commercial bank. Two previously nationalized banks (Pubali Bank and Uttara Bank) were denationalized in 1984. The number of private Commercial bank is now 17. Some new banks were also introduced this year.

Domestic private banks, which include two denationalized banks, increased their market share after 1986. Their service is considered better than NCB's and they have expanded into fee-based and international services. These banks compete for a limited number of creditworthy borrowers, but not with NCBs for priority or public sector lending. They also face the problem of capital.

Two specialized banks serve industry and two serve agriculture. The industrial development banks — Bangladesh Shilpa Rin Sangstha (BSRS) and Bangladesh Shilpa Bank (BSB) — are publicly owned and severely troubled institutions largely failing for several years. Their main problems are political intervention and ineffective management. Prior to 1981, they served different markets. Industrial policy had called for enterprises with fixed assets worth more than Tk-3 million to be in the public sector and BSRS was formed with three pre-independence financial institutions. BSB, the largest development bank, was formed by merging two other pre-independence institutions to serve mainly small private projects. Restraints on private sector activity were rolled back and, since 1982, there has been little new lending to the public sector. This two institutions differ little in clientele, lending objective or source of funds. In the past, these institutions relied largely on international credit lines and BB for funding, with their own fixed deposits accounting for 25 per cent of total resources. But, for the decade, foreign funding has ceased as BSB and BSRS failed to improve their performance. Domestic funding was also curtailed at the same time, but has periodically renewed since 1989.

Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB), together with NCBs, serve the credit needs of agriculture. During the 1980s, a period of seriously deteriorating credit discipline, the Government directed these banks to expand their rural branch network and increase lending to agriculture. This expansion outstripped the institutions' ability to maintain the quality of lending and recovery programmes. Poor debt recovery was exasperated by the involvement of local government officials in borrower selection, mixed signals created by loan amnesty and interest remission programmes and the use of credit for relief or patronage purposes. Many of the problems with agricultural credit can be attributed to lax credit discipline and political pressures.

Bangladesh has 27 insurance companies, including a foreign one. These companies include both general and life insurance. The insurance industry is dominated by two large wholly government owned corporations — Jiban Bima Corporation (JBC) for life insurance and Sadharan Bima Corporation (SBC) for general insurance. The insurance industry remained nationalized until 1984, and until 1990 JBC and SBC had a monopoly over public sector business. Both companies invest heavily in government securities, partially because of regulations on their investments and partially because of a lack of skills and understanding of risk management.

There are a large number of people in Bangladesh who do not use the facilities of formal financial system. They are the low-income group people who have few assets to use as collateral for loan. These people borrow from the informal financial market, which exist in rural area, especially by paying high interest rate.

Until recently, Grameen Bank, BRAC, RD-12, other NGO's have been working in this sector by providing credit to the poor, particularly rural women. The recovery rate is about 97 per cent, which is much better than the other financial institutions that exist in Bangladesh.

According to the Credit Development Forum (CDF) of Micro Finance Institutions (MFI) there are 800 MFIs in the country with a total membership of about seven million, of whom 82 per cent are women. The cumulative disbursement made by these MFIs since their inception is estimated at Tk 44 billion, with current loans outstanding estimated at Tk 9.6 billion. It is estimated that MFIs have created employment for about 54,000 people.

Measures

The major reform initiative was taken in November 1989 when the interest rates were partially deregulated with the objective of introducing flexibility, in the determination of interest rates for both lending and deposit. The Bangladesh Bank set the ceilings and floors and individual banks were allowed to set their interest rates within the stipulated band. A floor was established close to the inflation rate to keep the deposit rate from falling below the inflation rate. A ceiling was established to prevent banks from raising deposits at an unusually high interest rate. A band was also established for the lending rate of each category of loans. This ceilings and floors were revised and adjusted by the Bangladesh Bank and the banks were allowed to adjust their interest rates once in a month within the revised band.

Further flexibility in interest rate was introduced from June 1992. Permission was given to the commercial banks to differentiate interest rates to individual borrowings for including any risk premium to lending to priority sectors — agriculture, small and cottage industries, export. The number of lending categories also reduced from 29 to 12. Provisions were also made for priority sectors to provide interest subsidies through budgetary means.

The bands of lending interest rates were completely removed. But in the case of deposit, only the ceiling was removed, not the floor. The refinancing windows of the Bangladesh Bank have been closed — only the Bangladesh Krishi Bank and the Rajshahi Krishi Unnayan Bank can use this facility. With the closing of refinancing windows, a rediscount window at the bank rate was opened for commercial banks. This rediscount window operates as an instrument of monetary policy.

From 1990-91, Bangladesh Bank gradually moved to indirect instrument for monetary management. Most of the credit ceilings and direct controls of interest rates were removed. As a first step towards reforms in monetary management, Bangladesh Bank introduced 91-day and 30-day Bangladesh Bank bill. But these two bill auctions were postponed later. From 1997, 30-day, 90-day, 180-day and 1-year Treasury bills were used as an indirect control mechanism for monetary management.

Statutory Liquidity Requirement and Cash Reserve Requirement were also reduced to increase the investable fund with commercial bank. Now, the Cash Reserve Requirement is 7 per cent and the Statutory Liquidity Requirement is 22 per cent.

Bangladesh Bank introduced a regulation in 1989 which required the commercial banks to annually classify their loans into four categories — unclassified, substandard, doubtful, and bad loans. But before that all NCBs made a huge unrecoverable bad loan.

In the same year, BB also introduced the legal requirement of capital adequacy for banks. The private banks have so far maintained the capital adequacy but that of the nationalized banks has been roughly met through the infusion of capital by the Government. To recapitalized the nationalize bank Government issued bonds of Tk. 34 billion through 1990 to 1992.

With a view to recovering both industrial and agricultural loans, a loan recovery program was initiated in 1986. An interest amnesty programme was also introduced in the same year for inducing the agricultural loan repayment.

To close the legal loopholes and to expedite the loan recovery, the Parliament enacted a Financial Loan Courts Act. Government established financial loan courts at the district level on the basis of this Act. An amendment has also been made on it to allow prosecution of defaulters.

The Government recognized the need for privatizing the four Nationalized Commercial Banks. But still it fails to do so. Financial weakness, distressed condition and the trade unions of these banks were the main barriers that come in the way of privatizing these banks.

Taka was pegged with the British pound sterling at the time of independence. Though there was a large devaluation of Taka, it remained overvalued as the inflation rate was high between 1972-1975. There was no secondary market during that period. The allocation of foreign exchange for imports was made through inport license at the official exchange rate.

In 1974, there was a major crisis in the balance of payments. In 1975 Taka was devalued against the pound sterling. But it was not possible to totally eliminate the overvaluation of the exchange rate of Taka.

An active secondary foreign exchange market was developed in the mid-1970s. At that time, under the Wage Earners Scheme, the foreign currency remittance of overseas Bangladeshi workers were transacted and used for the financing of some listed inports.

The secondary foreign exchange market has now become the important source of financing for non-government imports due to the increasing inflow of remittances. The exchange rate determined in the secondary foreign exchange market is considered as a proxy for market determined exchange rate.

In 1989, GOB introduced a reform programme to unify the official exchange rate and the secondary exchange rate. It was achieved in January 1992. In March 1994, Taka was made convertible for current account transactions. The Government of Bangladesh accepted the status of Article VIII of the International Monetary Fund in April 1994. It made the government obligated to current account convertibility and the liberalization of exchange transactions on current accounts.

Three new laws have been drafted, several existing laws are being amended and introduction of additional new laws are under consideration of the Government.

To increase the Bangladesh Bank's independence and the regulatory and supervisory power, GOB needs to amend seven laws — Bangladesh Bank order, 1972; Banking Companies Act, 1991; Bangladesh Bank (Nationalization) Order, 1972; Bank Deposit Insurance Ordinance, 1984; Transfer of Property Act, 1872; Negotiable Instruments Act, 1881; Evidence Act, 1872. The amendments of these laws will improve the governance of the NCBs, improve the deposit insurance scheme, limit the insider lending etc.

The proposed three new laws are Money Loan Court Act, Debt Recovery Agencies Act, and Financial Institutions (Security of Loans) Act. These will also accelerate the financial sector reform.

Improving Governance

Bangladesh Bank needs to strengthen its institutional capacity to have lead responsibility in conducting monetary policy; to have responsibility for regulation and for supervising the financial system; to manage the country's foreign exchange reserves; to maintain and operate the country's payment system; and to perform treasury functions on behalf of the government significantly.

It should take steps to strengthen the prudential regulation and require that classification and provisioning requirements are based on international standards, as recommended by the Basle Committee. Bangladesh Bank also needs to strengthen its supervision and its Problem Bank Unit in order to improve its ability to deal with banking crisis.

Politicization of the selection and appointment process of the Board of Directors, Chief Executives and Mangers of NCBs should be stopped.

Bangladesh Bank should require all audits to comply with International Auditing Standards (IAS) and review the qualifications of all auditors who conduct audit for financial institutions as well as the fee structure to ensure that auditors are adequately compensated.

Special attentions need to be given to NCBs and PDBs in the reform process of financial liberalization. Because. NCBs and PDBs together accounted for about 80 percent of loans and 90 per cent of total deposits in 1997. If the international standards are applied, the proportion of classified loans in NCBs and PDBs is supposed to be about 50 per cent.

At the end of 1997, 88 per cent of the non-performing loans were to the private sector, and approximately 500 borrowers accounted for about 70 per cent of all such loans. Due to the weak legal system, defaulters can delay cases indefinitely. Specialized Debt Collection Agencies can be established to deal with such big bad loans. For the smaller defaulters each financial institution should be encouraged to establish a problem loan unit to manage the recovery of all of the banks problem loans.

The financial sector reforms resulted, upto now, in increased flexibility in interest rates, more strict capital adequacy requirement for commercial banks, introduction of treasury bills, and formation of a monetary policy committee. In addition, Bangladesh Bank's supervision quality capabilities were improved through the establishment of one site bank inspection unit, vetting of a large loan cell unit, consolidation of commercial bank head office inspections, and introduction of modern analytical bank inspection tools.

Modern banking tools introduced at the NCB's included comprehensive management information systems, performance-planning systems, new loan ledger computerized accounting systems, reporting systems for large loans, and a comprehensive system for lending risk analysis.

Financial sector reforms takes time and involves many related activities. Though some initial and important steps were taken for developing a modern and efficient financial sector, much more needs to be done in Bangladesh. Non-performing loans are one of the big problems hindering the reform in financial sector. They have a negative impact on lending rates and capital adequacy. Additional legislation is needed to pursue loan defaulters and accelerate the recovery of assets.

Financial reform is not only an economic decision but also a political one. But this political decision took a very long time to come in the past. Presently the fiscal cost of financing the financial sector reform is about Tk. 80-90 billion, which was less than half of it 10 years ago .If the reform process is delayed for another five years the cost will be doubled.

TOM & JERRY; By Hanna-Barbera