



1. Project Data :
OEDID: C2567
Project ID: P009553
Project Name: Jute Sector Adjustment Project
Country: Bangladesh
Sector: Industrial Adjustment
L/C Number: C2567
Partners involved :
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2. Project Objectives, Financing, Costs and Components :

Objectives: (a) elimination of excess capacity by closing and selling the assets of 9 out of 29 jute mills and downsizing one large public mill; (b) retrenchment of 20,000 public-mill employees; (c) the restructuring of some US\$900 million of jute sector debt to commercial banks by debt forgiveness, rescheduling and temporary operating subsidies; (d) privatization of remaining 19 public mills; (e) training to increase skills of mill workers and managers; (f) closing and liquidation of the assets of the Bangladesh Jute Corporation, the state trading company . The Borrower also agreed to (i) maintain macroeconomic policy consistent with the reform program, particularly holding wage increases in the jute industry in line with productivity increases (ii) compensate banks for much of their loan losses incurred in the jute debt workouts; iii) implement a program to retrain laid-off mill workers for other work.

The credit was approved in February, 1994 for US\$ 256 million equivalent. The first tranche disbursed by March 1995. Due to lack of compliance with agreed actions, the remaining three tranches were cancelled, along with the remaining US\$ 204 million equivalent.

3. Achievement of Relevant Objectives :

After credit effectiveness, no public mills were closed, and none privatized . In all over 20,000 public employees were let go or retired. The debt relief of both private and public mills took place as planned . But neither the public nor the private mills are repaying their rescheduled debts to the banks . The expected training of both mill-workers and those who were let go (training in new skills) was only partially completed .

4. Significant Achievements :

Independently of program commitments, wages in the private mills were delinked from those of public mills, and are now less than two thirds of public-mill wage levels. There was also reduction of about 20, 000 in the labor force at the private mills. Government has withdrawn mill export quotas .

5. Significant Shortcomings :

In addition to failure to privatize the public mills, wages have risen at a substantially higher rate than productivity in the public mills. There has been a "recent surge in temporary and permanent new positions in public mills ." (ICR para 30). Wages and other costs in the public mills still substantially exceed receipts so that losses are at a very high rate. The less efficient public mills now account for a larger share of jute production than before the program . Training of those separated was less successful than expected in part because those to be trained were unwilling to make the required cash contribution, substantial in itself (\$100 in many cases) although a small part of total severance benefits per person (usually in excess of several thousand dollars).

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Unsatisfactory	Highly Unsatisfactory	
Institutional Dev .:	Partial	Modest	
Sustainability:	Unlikely	Unlikely	

Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

(1) Relying on the Ministry of Jute to deliver the program may have contributed to the negative outcome . When it became clear that the jute industry was likely to contract, Ministry -of-Jute zeal for its implementation may have dropped off. A greater implementation role for the Ministry of Finance may have been in order . It may have had greater power, legal competence and certainly incentives for carrying the program through to completion . (2) Once again the Bank was technocratic in a political arena . Attention to positions on jute privatization, and to liquidation of insolvent mills among the various actors (government players, farmers, mill owners, etc.) might have permitted the Bank to help put together a program with greater political support (It certainly would have permitted writing a better statement of risks and how to deal with them in the President's Report .) (3) There is little discussion in the President's Report about bankruptcy practice in Bangladesh . Nine public mills were to be declared bankrupt and liquidated. But whether the legislation/ regulations and procedures for this were in place is not addressed . If the reform program in effect requires bankruptcy proceedings, the constraints on such proceedings of a legal, customary, political nature etc. need to be thoroughly addressed during project preparation so as to facilitate liquidation "down the road."

8. Audit Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR :

The ICR is satisfactory. It presents a balanced assessment of the project . There is, however, little discussion in the ICR concerning bankruptcy practice in Bangladesh and whether the possible failure to address this during preparation weakened the operation .