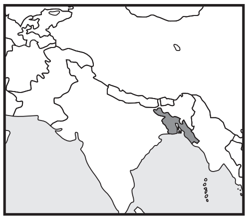
Corruption and mismanagement threaten jute mills

ATIUR RAHMAN ISMAIL HOSSAIN



The jute sector was dominant in the economy in terms of manufacturing sector output, employment, and foreign exchange earnings. It contributed 87% of total merchandise export earnings at the time of the country's independence. The change of government in 1975 paved the way for a change in the nationalisation policy and a process of privatisation was initiated. This report discusses the impact of the nationalisation and later privatisation of the jute mills on the national economy and on the jute workers.

Bangladesh won its independence on 16 December 1971 after a nine month long liberation war. Much of the country's infrastructure was devastated during the war. A large number of industrial and commercial enterprises were damaged and abandoned by their Pakistani owners, creating a managerial vacuum. In a difficult situation, the government tried to move the wheels of commerce and industry by undertaking their management by its own hand. Further, the socialist ideology of the leading Awami League led to the nationalisation of the manufacturing, banking, finance, transport and communication sectors in March 1972. As a result, the State came to own 92% of the fixed assets of the modern manufacturing sector. As part of the programme, all 77 jute mills of the country were nationalised. The jute sector was dominant in the economy in terms of manufacturing sector output, employment and foreign exchange earnings. It contributed 87% of total merchandise export earnings at the time of independence.

It has been argued that nationalisation was undertaken without much preparation for efficient management of the nationalised industries. Lack of efficient management, lack of operational autonomy, a rigid wage structure, controlled pricing policies, corruption, and other problems turned the State-Owned Enterprises (SOEs) into money-losing enterprises. These concerns depended on huge state subsidies, which proved to be very costly. Against this backdrop, the change of government in 1975 paved the way for a change in nationalisation policy and a process of privatisation was initiated.

Nationalised businesses served political objectives and fed corruption

Critics hold that nationalisation had been carried out quite mechanically without any attention to the capacity of the public sector to run the mills. As mentioned, there were vacuums in the top managerial positions caused by the exodus of the Pakistani management during the war. These positions were filled by mid-level officials and even by clerks on some occasions. The nationalised mills thus had weak management from the beginning.

After nationalisation, the higher authorities, the mill managers and the Collective Bargaining Agents started misappropriating the funds and resources of the mills. The number of officers and staff members was raised by about 35% to 40% above that in the pre-liberation period. Another round of increases in management personnel, by another 30% to 40%, took place after the violent political changes in the country in 1975, following a series of coups and counter-coups. On both occasions the appointments were based on political considerations. On many occasions the mill authorities showed inflated figures for purchase of jute and in order to cover up this mischievous act, set fire to the jute in the warehouses, burning the whole stock to ashes. Consequently, the quality of production suffered and the mills began to lose money. The mounting losses and inefficiency of the enterprises began to negatively impact on the economy. The inefficient operation of SOEs led to a massive drain of resources, conservatively estimated at 4.9% of GDP annually since 1991. The public financial institutions have also performed poorly, suffering from significant and understated losses and capital shortfalls. The inefficient services of SOEs in energy, telecommunications, banking, railways, ports and other public utilities have increased the cost of doing business in other sectors of the economy and have reduced consumer welfare.

Mixed results of non-transparent privatisation process

The government, instead of trying to address the real problems of the mills through better management, better labour relations and improved productivity, initiated a process of privatisation of the SOEs, including the jute mills, under the advice of the World Bank. The overall experience with privatisation, however, has not been encouraging. A World Bank study of the performance of the privatised units divested during the 1980s reports that nearly 50% of the enterprises (or 245 out of 497 small industrial enterprises, excluding large jute and cotton textiles) have been closed down. A depleted asset base, high debt liabilities and inefficient management are responsible for this deplorable situation. The privatised large-scale jute and cotton textile mills have also exhibited mixed results in terms of investments, productivity, profitability and other measures of efficiency.[1]

Binayak Sen, analysing a sample of 205 manufacturing units, found a high incidence (40%) of post-divesture closures with 5% of the units not traceable at all. The study, however, observes two areas of improvement: out of the 112 enterprises currently in operation, 40% diversified their businesses by introducing new products and 60% showed profits as against 38% before divesture.[2]

It is difficult to provide any conclusive judgement on the true magnitude of privatisation because of a lack of hard statistics. A World Bank study in 1997 showed that a total of 1,089 enterprises were privatised in Bangladesh between 1972 and 1996. A study by the International Labour Organisation[3] estimates the number of such enterprises at 1,083, of which 610 were industrial enterprises.[4] Between 1978 and 1986, 43 jute mills were privatised. It should

1 R. Sobhan. «Disinvestment and Denationalisation Profiled Performance», in *The Bangladesh Journal of Political Economy*, Vol. 6, No. 2, 1985.

2 Binayak Sen. *Wither Privatisation: Results of an Exploratory Survey of the Disinvested Industries in Bangladesh*, mimeo, Dhaka: BIDS, 1997.

3 International Labour Organisation, *Retraining and Redeployment of Workers Affected by Privatisation in Bangladesh*. Geneva: ILO, 1999.

4 Editor's Note. Apart from jute mills, a survey dated February 1991, commissioned during the government of President Shahabuddin, found that over 50% of the privatised units were not operational. Also a World Bank study carried out during 1991-1996 found that out of 13 privatised enterprises, five closed, one was not operational, and four continued to make losses after privatisation. That was in the context of an IMF and World Bank privatisation scheme for Bangladesh, which included the sale of 42 public enterprises and came to a standstill in 1991 but later started again, with the results mentioned above.

be noted that between 1986 and 1991 not a single SOE was privatised and 26 enterprises have been privatised since 1993. It may be further noted that the government has also resorted to closing enterprises to solve problems in the nationalised sector. Closure of unviable mills has been limited to six mills in jute manufacturing since the early 1990s so far, while a larger number of textile and steel and engineering mills were closed in recent years. The most notable example is the recent closure of the Adamjee Jute Mills.

The privatisation process was not transparent. There was no open bidding, and the valuation of jute mills that were privatised was not done in a transparent manner. Just prior to privatisation, profitable SOEs became losing concerns, and mills were sold at a very low price through an unholy alliance between the owners and policymakers. Furthermore, corruption took place in managing the mills even after they had been privatised. It very often happened that the owner himself overvalued the price of purchased jute or other raw materials, as well as the machinery, and showed a loss on the balance sheet. This enabled the owner to default on bank loans. Some of the mills that had been restored to their former owners were later sold to new, inexperienced entrepreneurs. Privatisation was not to be the answer to the problems of the ailing jute industry.

The situation of the mills has also been made worse by some other factors such as excessive manpower, outdated machinery, and declining demand in both domestic and international markets. This has resulted in continuous losses and closure of some mills, resulting in the loss of jobs and production.

Social impact

The social impact of privatisation has been heavy. About 89,000 workers were laid off during the 1995-97 period. Studies of the employment situation based on a survey of 205 privatised enterprises[5] indicate that the workforces of the firms still in operation have been reduced by about 25%. When taking into account those privatised firms that closed, nearly 40% of the workers previously employed in the SOEs lost their jobs. Furthermore, there has been a tendency to replace permanent workers with temporary workers, decreasing the job security of those who remain.

It has been very hard for the workers who have lost their jobs to find alternative employment. There are few jobs available and there is little retraining of workers to facilitate reemployment. Consequently, some workers have entered the informal labour market doing odd jobs like rickshaw pulling and working as day labourers.

While the mills were in operation, the workers used to live reasonably good lives. Since they lost their jobs, they have faced adversities. Many of them have not been able to feed their children properly let alone send them to schools or provide them with needed healthcare services. Some of the workers have sold the assets accumulated during their working lives, and some have sold the land inherited from their parents. In addition to losing their assets, laid-off workers face rising indebtedness, as most of them are living on borrowed funds.

As mentioned earlier, some of the privatised mills were sold again to new owners. They, too, were inefficient in running the mills and had to eventually close them. The new owners did not even meet the legal severance payments to the workers when the mills closed.

Women do not work in the mills and hence the privatisation process did not directly affect them. But as part of a family that is undergoing economic hardships, women bear disproportionate amount of the burden. They will be the first to be withdrawn from schools, for example, and they often have to sacrifice their share of food for other members of the family.

The government has tried to safeguard workers' interests recently by offering compensation packages to the retrenched workers. Some of these compensation schemes are «golden handshakes» and «voluntary departure schemes». While the financial packages seem generous, they cannot be a good substitute for life-long employment when jobs are scarce. The government is also arranging for retraining of workers.

Conclusions

Management vacuums and socialist ideologies motivated nationalisation of enterprises in manufacturing and commerce, including the jute manufacturing sector. The sector suffered from weak management and corruption from the beginning. Instead of addressing the real problems of the nationalised sector, the government undertook privatisation of the SOEs, including the jute mills. The privatisation process was itself non-transparent, and the private owners proved to be as inefficient and corrupt as their predecessors. Throughout the whole period the politically powerful were able to appropriate the assets of the mills and get richer. The ordinary labourers have suffered and their sufferings have increased with the closure of the mills. Government should undertake effective safety net programmes to safeguard labour interests. ■

References

Momtaz Uddin Ahmed. *Privatisation in Bangladesh: Minimising Negative Social Effects through Restructuring.* Geneva: ILO, 2002.

World Bank, *Bangladesh: Implementing Structural Reform*, Dhaka, 1993.

Unnayan Shamannay
<shamunnay@sdnbd.org>

5 Binayak Sen, *op. cit.*