

6 August 1996

Chairperson
Office of The Inspection Panel
1818 H Street N.W.
Washington, D.C.20433
U.S.A.

Dear Chairperson:

Re: Request for Inspection - Bangladesh: **Jute Sector Adjustment Credit**

We have followed the guidelines of the Model Form to develop this Request, and provide within this format all of the data and information specified in The Inspection Panel Brochure.

This Request documents the following

- (1) We as parties to this Request have been directly, adversely and materially affected by the Bank-financed Jute Sector Adjustment Credit (JSAC) project in Bangladesh.
- (2) These direct, adverse and material impacts on us have been directly due to the Bank itself failing to comply with its own operational policies and procedures in general and specifically those of the JS AC project and to the Bank failing to require the Government to comply with the contractual conditionalities of the JSAC agreement.
- (3) We support the concepts and implementation of the JSAC project and are requesting that the Bank act in accordance with its own policies and procedures on Bank-financed projects in general and specifically as stipulated in its JSAC agreement with the Government.

Affected Parties

We are shareholder / CEOs of private sector jute mills in Bangladesh. Annex 1 provides our names, contact addresses, and telephone numbers. Annex 2 is a map that indicates the location of our headquarter offices and mills within Bangladesh.

Jute Sector Adjustment Credit (JSAC)Project.

The Bank is financing the implementation of the JSAC project. We are thoroughly knowledgeable on the purpose, objectives and key components of this project. ' We are among the intended beneficiaries of the JSAC. We have participated in, or been informed about, studies, conferences and meetings related to the design and implementation of JSAC. In this capacity, we have made our concerns known to Bank staff regarding their failure to design and implement this project in accordance with their stated objectives and the adverse, material efforts their acts and

omissions have had on us directly as individuals, as private sector enterprises, and as an industry..

The following description of JSAC is from IDA documents.

Purpose: The JSAC was intended to support the implementation of a program of reforms (commonly referred to as the Jute Sector Restructuring/Reform Program (JSRP)) designed to restructure the jute manufacturing sector in Bangladesh.

Objectives: JSAC was intended to (a) help turn the loss making jute manufacturing sector into a smaller but viable industry ; (b) eliminate the burden of jute sector subsidies on the national budget; (c) establish a market-based credit system and financial discipline in the jute manufacturing sector; and (d) initiate a strong privatisation program that would demonstrate Bangladesh's commitment to a vigorous private sector development program.

Key: Components : JSAC was intended to include (a) elimination of excess capacity in the jute industry by closing 9 of the 29 public sector mills and downsizing 2 large public mills; (b) retrenchment of about 20,000 employees in the public sector; (c) restructuring of the jute sector debt of about Tk 35 billion (\$900 million); (d) privatisation of at least 18 of the remaining 20 public mills; (e) separation benefits and retraining for retrenched workers under a Social Safety Net Program; and (f) attainment of competitive, viable machine efficiency and labour productivity levels through a Technical Assistance and Training Program for managers and workers in retained mills.

According to IDA reports, each component of JSAC would have to be effectively implemented in order to meet JSAC's purposes and objectives. If one or more of its components was not implemented effectively, IDA has stated that the project would fail to meet its intended objectives.

Understanding of Bank Policies and Procedures

We understand that the Bank has the following general policies and procedures.

(1) Promotion of the private sector, reduction of Government involvement/ownership in the production of goods and services, removal of Government induced market distortions, and generation of productive employment for poverty alleviation.

(2) Involvement of the major affected parties during the design and implementation of any Bank-financed project.

We understand that the Bank's general policies and procedures would provide the framework or guiding principles in the design and attainment of the above stated JSAC purposes and objectives.

Conversely, we understand that a violation of Bank policies /procedures would occur in JSAC if:

- (a) either of the two broad guiding principles were not adhered to during the design of the JSAC conditionalities, and/or
- (b) once enumerated, omitting one or more of its stated JSAC objectives, and/or
- (c) acting in such a way as to cause one or more of these objectives not to be realised on the project, and/or
- (d) failing to enforce JSAC agreement conditionalities which, would adversely affect implementation of JSAC's key components and attainment of its objectives, and/or
- (e) designing and/or implementing one or more of its key components in such a way as to ensure their ineffectiveness in meeting stated purposes and objectives.

Rights/Interests of Affected Parties:

Our rights/interests are:

(1) We are private entrepreneurs whose families had set up jute goods manufacturing units prior to the Bangladesh Liberation War (1971). In 1972 our jute mills were nationalised. In 1982, a third of the industry was re-privatised by the Government and we reacquired majority ownership of our mills. However, the Government retained minority ownership in many of our mills and directly and indirectly interfered in the operations, labour-management relations, wage policies and other decisions within our mills. During nationalisation, the jute mills suffered greatly through bad management practices and public sector culture. Re-privatisation of some of these mills did not result in their revitalisation because of continued Government interference and debt, equipment condition, manning, wage, and processing problems inherited from the nationalisation period. Financial losses and debt had grown to intolerable levels during this period.

(2) Since the Government needed the jute sector to meet its political employment, and export-earning objectives, it continued after 1982 to subsidise losses through directed loans from national banks. Consequently, it continued to influence industrial and financial policies in private sector mills within the jute industry. We as private mill owners were required to keep our mills open and could realise a livelihood as long as the Government continued financing our losses through directed bank loans. Obviously, this uncontrolled growth in recurring losses and increased debt burden could not continue forever.

(3) We had pinned our hopes on a World Bank led reform and financing program (JSRP/JSAC) formulated in 1992 to (a) phase out both direct and indirect Government involvement, (b) restructure. the debt which lie was to a great extent the result of nationalisation or continued Government interference, and (c) correct bad mill management and processing practices that had resulted in uncompetitively low machine efficiency and labour productivity, and large financial losses.

(4) Without Government subsidisation of losses and with our inherited and unmanageable debt levels and high wage costs, we are dependent for survival on the effective implementation of the JSAC project. If JSAC is not implemented effectively, we will have to close our mills, lose our livelihood from these enterprises, and face uncertain economic and personal fates given our debt liabilities and Government reinforced worker expectations regarding their continued employment in mills and their likely volatile reaction to mill closings.

Ban, Violations of Its Own Policies and Procedures:

The Bank has violated its own policies/procedures in the following ways.

(1) As regards general bank policies and procedures, while the bank has stated formally that it supports privatisation, private sector development, the operation of market forces within national economics, and involvement of affected parties in project design, we feel that based on our experiences to date with JSAC that bank staff actions and omissions demonstrate:

- (a) their lack of support for the private sector in the jute industry, and .
- (b) their unwillingness to involve, or to take seriously the concerns of, the private sector as an affected party in the design and implementation of Bank-financed projects.

(2) As regards the conditionalities of the JSAC project specifically.

(a) the Bank's design of JSAC has been from the beginning detrimental to the recovery and growth of private sector mills by being discriminatory and flawed, providing public sector mills with much more favourable capitalisation and debt restructuring vehicles than those provided private sector mills;

(b) the Bank's implementation/support of JSAC's key components has demonstrated its inability or unwillingness to enforce conditionalities of the JSAC agreement and its apparent willingness to reconsider and modify significantly to the detriment of JSAC the content, scope and timing of the implementation plans for:

- public-sector mill closures;
- downsizing of two large public sector mills;
- privatisation of remaining public sector mills;
- working capital availability for private sector mills,
- wage policy reform and wage-level containment in the sector; and
- technical assistance and training to attain viable machine efficiency and labour productivity levels in the sector; and

(c) private sector jute mills as affected parties, were not adequately consulted, particularly in the formal decision making meetings. Annexures 3 and 3A provide matrices showing:

- (1) intended actions and time schedules for implementation of JSAC's key components according to the JSAC agreements;
- (2) the Bank's actions and omissions that violated provisions of the project; and
- (3) what has actually happened as a result of the Bank's actions and omissions.

The end result of such actions and ineffective and on timely implementation of JSAC key components and the Bank's consequent violations of its own JSAC provisions is that the purposes and objectives of JSAC are not being met. Specifically,

- (1) the sector continues to realise significant losses, with public sector mills having larger losses per ton than private mills (See Annex 4);
- (2) public sector operating loom capacity remain relatively, unchanged and their relative share of total operating loom capacity has grown (see Annex 5);
- (3) private sector operating loom capacity has continually and significantly decreased while higher cost public mills have remained in operation (see Annex 6); and

- (4) no mills have actually been privatised during the four years since the signing of the JSAC agreement and instead the share of total jute goods production that is in public sector mills has grown while the share in private sector mills has decreased. Also in contravention to the JSAC agreements, these non-privatised mills continue to get their loss finances from the Government.

We understand now that the Government has requested formally that the Bank agree to eliminate or postpone the privatisation and public mill closing provisions from the JSAC agreement. This is allegedly because public sector mills are needed to meet world demand for jute goods, since private sector mills are the ones closing and the ones decreasing their operating loomage and not the public sector mills. We also understand that Bank staff are currently considering this Government request.

The reason for this loss of operating capacity in the private sector' mills is obvious. We in the private sector have been denied working capital and have had to decrease our operating loomage. Public sector mills have been provided with all their working capital requirements and thus can operate at full capacity, regardless of their losses. The actions and omissions of the Bank in the design and implementation of JSAC provisions have resulted in the exact opposite of the intended JSAC objectives. (Sources of verification on this provided upon request).

Adverse. Material Effects Directly Caused by Bank's Violations.

We believe our rights/interests have been. adversely and materially affected 'as a direct result of the Bank's violations.

- (1) Nowhere near the 90% of forecast exports proceeds suggested by the JSAC agreement were given as working capital to the private mills.
- (2) Delays in authorising/providing private sector mills working capital (while public sector mills received uninterrupted and unconditional working capital) and the terms and conditions of such loans (relative to those of public sector mills) which were allowed to happen by Bank staff have resulted in:
 - multiple, temporary closures of our mills (with workers receiving uninterrupted compensation during these closures),
 - reduced operating loomage,
 - lost business/customers,
 - reduced revenue,
 - significant financial losses due to operating costs exceeding realised revenues, and
 - difficulties in us eventually acquiring working capital and capital improvement loans and in negotiating viable terms and conditions (due to above operating problems and uncertainties/risks associated with local commercial bank's perceived lack of commitment to support private sector mills and the Government's indifference if not hostility to private sector mills).

- (3) Private mills have experienced the following as a direct result of bank violations of its own JSAC policies and procedures.
- temporary closures of 11 private mills during the post-JSAC period compared to 5 temporary closures for a comparable pre-JSAC time period.
 - Operating loomage in the private sector has decreased from 5955 looms in FY 1992-93 (7236 looms in FY 1991-92) to 4199 looms in December 1995;
 - Private sector sales volume has decreased from 159116 tons (including yarn and twine) in FY 1992-93 to 150933 tons (including yarn and twine) in FY 1994-95; and
 - Private sector production has decreased from 162865 (including yarn and twine) in FY 1992-93 to 149656 tons (including yarn and twine) in FY 1994-95.
- (4) The failure of the bank to realise any privatisation of public sector mills during the four years since JSAC's initiation verifies the direct, adverse and material effects of bank violations on the demand for jute mills and thus their market values.
- (5) We had hoped that the effective design and implementation of the JSAC component involving a Technical Assistance and Training (TAT) Program for Manager and Workers in Retrained Mills would:
- increase machine efficiencies; .
 - increase labour productivity;
 - reduce operating costs to world competitive levels;
 - improve the competitive position of the Bangladesh jute sector relative to man-made fibre substitute/alternative goods in world trade;
 - stabilise world demand for jute goods and increase demand for Bangladesh jute goods in world trade; and
 - thus result in profitable and valuable jute goods manufacturing enterprises.

While the public sector BJMC was formally on the Evaluation Committee, BJMA was not invited and therefore unrepresented. Despite this, we participated personally, or were represented by our private sector mill organisation (BJMA), in bank sponsored conferences and in meetings with bank staff to present our views and preferences on the content and nature of this TAT program. In addition, BJMA, monitored the design and implementation phases of this program and provided written recommendations and concerns to bank staff regarding what was happening to this program. Our recommendations and concerns have been systematically and totally disregarded by bank staff. Even more disconcerting is the fact that bank staff have actively supported a TAT program design and delivery system that was opposite to what the private sector was requesting. While it serves the income and survival interests of public sector mill officials, managers and workers and the business interests of involved consultants, the TAT program is explicitly designed and staffed D-W to meet its stated objectives and not to support JSAC's formal purposes and objectives.

We therefore foresee no improvement in the technical viability of our mills. Without significant machine efficiency and labour productivity improvements we know that there is no hope for improving the financial viability of our mills. Without financial viability, we will have to close our mills. This will be a direct result of bank staff not understanding the implications of their actions and omissions on the TAT program and not taking seriously our design and implementation recommendations on this critically important component of JSAC.

(6) The failure of the bank to realise (a) JSAC's privatisation goals and (b) the reduction of excess capacity within public sector mills has resulted in these public sector mills continuing to dominate markets. They sell at below-market prices and buy raw jute and services of labour at much higher prices, even when market prices are below their manufacturing costs, because their financial losses from such transactions continue to be subsidised by the Government. As private sector concerns, we can not do this and thus can not continue to compete with these subsidised public sector jute mills. The actions and omissions of Bank staff relative to JSAC, support the above public sector mill dominance of the market, continued losses by public sector mills, and the demise of our private sector jute mills..

(7) We expect that the net result of the above will cause us to suffer.

(a) Closure of our manufacturing businesses, resulting in serious dislocation of our careers and livelihoods, threats to our personal security and those of our family members, and loss of income;

(b) Loss of thousands of jobs of our employees; and

(c) Loss to our nation's economy and social welfare.

As IDA reports repeatedly state, the jute sector is critically important to the internal and external economy of Bangladesh. As stated in these reports:

(a) the livelihood of about 25 million people (nearly 25% of our population) is affected by jute-related activities;

(b) jute is our main cash crop, our largest industry, and our second largest export commodity;

(c) our sector provides about 10% of total employment, 12% of GDP, and 25% of export earnings (or 40% of net export earnings).

Given the economic importance of the jute sector and our country's history, the closure of our private sector jute mills may even result in the Government re-nationalising and re-opening these closed jute mills. The net result of Bank violations of its own JSAC policies and procedures will therefore likely be .test the privatisation of our sector but its total nationalisation. This is an outcome that is totally opposite to the stated purposes and objectives of JSAC and that will cause us and our fellow jute mill owners irreparable harm.

Steps Taken with Bank Staff to Resolve Violations

We have complained to bank staff about the above bank violations of JSAC policies and procedures and their likely adverse impacts on (a) meeting JSAC's purpose and objectives and (b) private sector jute mills. We personally, or as represented by BJMA, have made continuous representations to the World Bank Resident Mission, Bangladesh, and to relevant World Bank Head Office staff in Washington, D.C., through Bank sponsored conferences, meetings, and formal letters. Annexure 7 contains copies of letters, formal presentations given at conferences or meetings and notes from such conferences/meetings.

Nature of Bank Staff Responses to Concerns Raised

There has been no formal, written response from Bank staff to letters from the Chairman of BJMA (our private sector jute mill association) except on one occasion. We received some verbal responses to our

concerns from Bank staff during conferences, meetings, and personal discussions, but we found these to be unsatisfactory. Bank staff responses were inadequate and often did not address or rectify the problems raised, and instead tended to be based on suspicious and bureaucratic attitude towards the private sector.

Furthermore, more often than not our representations were ignored as bank staff did not feel themselves accountable to anybody but the Government. Generally, we have found that bank staff, perhaps because of their career backgrounds in Government, are lip service private sector advocates who are more comfortable dealing with Government officials than private sector representatives and appear to be unsympathetic to private sector concerns, uninformed about what it takes to run successfully a business in the private sector, and suspicious of private sector intentions.

Additional Steps Taken to Resolve Problem

We have approached our own Government in Bangladesh, but due to their anti-private sector sentiment and dependence on the Bank for decisions, nothing got done.

Conclusion

We therefore believe that the above actions/omissions which are contrary to the above policies or procedures have materially and adversely affected our rights/interests and request the Panel to recommend to the Bank's Executive Directors that an investigation of these matters be carried out in order to resolve the problem.

We further authorise you to make this request public.

While we believe we have fulfilled the information requirements for this request, if the panel requires any additional information, please contact us and we will try to be responsive to your needs. We will make ourselves available to the panel for interviews or discussions related to this request. We view this matter of extreme importance to our sector, our economy and our people and are eager to get your response to this request.

Sincerely,

Names of applicants on Annexure 1.

Annexure 1 (confidential)