

## REHABILITATION OF SICK INDUSTRIAL PROJECTS OF BANGLADESH

A. K. M. Solayman Hoque<sup>1</sup>, S. K. Biswas<sup>2</sup> and M.A. Wazed<sup>3</sup>

<sup>1</sup>Ex- Chief Engineer, Bangladesh Steel & Eng. Corporation (BSEC), Bangladesh

<sup>2</sup>Dept. of Mech. & production Eng., Ahsanullah Univ. of Sc. & Tech. (AUST), Bangladesh

<sup>3</sup>Dept. of Mech. Eng., Chittagong Univ. of Eng. & Tech. (CUET), Bangladesh

<sup>1</sup>solaymanhoq@gmail.com, <sup>2</sup>skbiswas.mpe@aust.edu, <sup>3</sup>awazed@gmail.com

***Abstract-** Industrialization has been accepted as a vital instrument of economic development in many developing countries. Industries becoming sick have become a great problem everywhere in this industrial world especially in the 3<sup>rd</sup> world countries. So it has become a great barrier for an industry to run smoothly and also it can be considered that such industry is difficult to survive. Many researches have been done to analyze the problem and suggest opinions about solving this problem as huge amount of capital is lost if an industry become sick and go out of business. It poses a major concern to revive from infeasible and impossible conditions facing any sick industrial unit when it is found that revival cannot be done through proper study and application of various corrective measures. This paper points out some ways to rehabilitate the sick industries and the overall objective is to overcome sickness and thus turning it to survival state.*

**Key words:** Sick Industry, Survival criteria, Rehabilitation, standard methods of production planning & control

### 1. INTRODUCTION

Industries' becoming sick has become a buzz word and subject matter of much discussion and debate in current days and it remained as no more a new phenomenon either in Bangladesh or in other country especially in third world countries. Any industrial unit is susceptible to sickness due to various reasons e.g., negligence, ignorance and inefficiency of its poor mobility to withstand various uncertainties. It is found that a large number of units, irrespective of their size, are either sick or becoming sick very soon which has become a matter of great concern for the entrepreneurs, financial institutions, the government, and the society at large. The entrepreneurs, financial institutions and the banks are highly concerned because a sizable portion of their funds is already tied up with these sick and ailing units. The government is worried about the closing of these units due to loss of production which would ultimately affect employment. In addition there might arise a social problem which will ultimately possess as a cost to the humanity.

### 2. SYMPTOMS OF SICKNESS

Sickness of an industrial unit generally starts with gradual wiping out of its capital which suffers continuous losses and cannot pull on its normal activities.

Many authors defined industries falling into sickness in many ways. According to R. V. Raman an industrial unit can be termed as 'sick'<sup>[1]</sup> if one or more of the following occur:

- i. When the company has negative working capital,
- ii. Cash inflow during the last three years has progressively going down in relation to revenue commitment,,

- iii. When the cash inflow is less than the operational commitment and inadequate for debt servicing or when debt service liabilities is equal to or less than one,
- iv. Cumulative loss exceeds capital and reserves.

Standard of maintenance which accelerates the wear and tear of the existing assets sometimes leads a unit to a state of operational failure. Such unit thus said to have lost the viability for survival and may be considered as sick.

It is not feasible and not necessary to rehabilitate all sick units. Depending on the nature of the sickness, the role of financial, technical, managerial and environmental factors causing such sickness, and the extent to which it is amenable to rehabilitation, the approach must necessarily be selective. The selection criteria that suggest that, any unit which has the prospect of overcoming the bad causes of sickness within a foreseeable future, need only to be nursed.

### 3. CAUSES OF SICKNESS

An industry might face various problems since its establishment or at early stages of life and sometimes the problems persist as the industry moves forward through the future. Such causes<sup>[7]</sup> may be classified into two broad categories: internal and external.

**External causes:** External causes are those over which the industry has no control. This might be stated as follows:

1. Irregular supply of energy/ frequent power disruption.
2. Raw material scarcity/ non-availability of raw material,
3. Frequent change in government policies (specially about tax determination, import/export policies/import liberalization, etc., related other policies),

4. Delay in getting decision from banks and financial institutions,
5. Shortage of working capital,
6. Higher rate of interest on bank loan,
7. Delay in implementation of the project,
8. Labor unrest,
9. Political unrest,
10. Change in local and global conditions,
11. Natural calamities,
12. Govt. policy (regarding production price and distribution), etc.

**Internal causes:** Internal causes are those which are within the control of the management. These may include the following:

1. Over employment /improper man-power planning,
2. Lack of proper education and training,
3. Non-availability of skilled labor,
4. Poor management,
5. Improper planning of location and layout,
6. Inadequate quality control,
7. Faulty project planning and appraisal,
8. Old machineries and technology,
9. Over-estimation of demand,
10. Inadequate market survey,
11. Poor financial management policies,
12. Improper managing of accounts,
13. Incorrect financial analysis for investment,
14. Labor problem, etc.

#### 4. PERFORMANCE OF SOE ENTREPRISES

The performance <sup>[5]</sup> of the industries in nationalized sector, just after liberation war, in terms of services, production, sales and profits were found to be disappointing due to many factors.

Especially in external factors it will be worthy to include the disruption and destruction caused by the liberation war, the problems of re-establishing the economy in the aftermath of the war, inadequate investment in the plant, increases in import cost, taxes and tariffs, depreciation of currency (value of Taka), adverse movements in terms of trade and uncertain foreign aid flows, particularly during the recession of the 1970s and the early 1980s <sup>[5]</sup>.

Similarly in Internal factors it will be worthy to include the lack of clear objectives, non-availability of raw materials, labor problems, power failures, inexperience, poor management, and lack of managerial autonomy and a result based system of accountability of officials /managers responsible for non-achievement of tangible benefits/profits.

Consequently control was sought to be exercised through day-to-day interference on operational matters by the public agencies curtailing the autonomy to achieve objectives for which the SOEs were created. It may be worthy to be mentioned here that most of the SOEs were born through nationalization just after the birth of Bangladesh.

#### 4.1 Loss Making SOEs:

Many State owned Enterprises (SOEs) incurred chronic losses and continued to rely on state subsidy. Besides losses and low rate of return, most state owned enterprises in Bangladesh obtained equity injections from the state and substantial amount of loans from nationalized commercial banks (NCBs). Table 1 below shows outstanding loans of SOEs (Under industrial Sector Corporations) from NCBs in two different periods as mentioned in Table 1.

Table 1: Outstanding loans of SOEs of sector Corporations

(In Million Taka)		
Corporations	Outstanding loan (up to Dec. 1997)	Outstanding loan ( Upto March, 2007)
BJMC	16237.60	23478
BTMC	6341.20	2788
BSEC	7986.50	849
BSFIC	1942.90	6681
BCIC	1408.00	7588
Total	33916.20	41384

**Source:** Akram, 1999: p.15 (for data up to 1997) and Bangladesh Bank, Dhaka (for data up to March, 2007) and Nasim Ahmed, 2008: p. 24

The poor economic performance of SOEs and the heavy financial burden on the state were major concerns for the policy makers of the successive governments in Bangladesh. From above statement and scenario it is clear that rehabilitation is necessary for the enterprises of sector corporations those are in sick conditions or becoming sick gradually.

#### 5. REHABILITATION PROGRAM

The rehabilitation Program <sup>[6]</sup> will involve the following major issues which have to be sorted out after it has been decided that the sick unit is viable and can / should be rehabilitated.

- i. Identification of problem and causes of sickness relating to rehabilitation for performance improvement,
- ii. Change of management,
- iii. Improvement in management system,
- iv. Concessions or reliefs or assistances to be allowed by the financial institutions and the government,
- v. Modernization of plant and equipment or expansion of an existing plant or even diversification of the products being manufactured,
- vi. A settlement with the creditors for payment of their dues in a phased manner.
- vii. Determination of the sources of additional funds which is needed to refinance,
- viii. Strict control over cost.
- ix. Reduction in manpower,
- x. Marketing arrangements,
- xi. To carryout detailed appraisal of rehabilitation as regards to their viability.

## 6. PREVENTIVE MEASURES

The Prevention of sickness cannot be the sole responsibility of any agency. For improvement of operational and financial performance of the industrial enterprises the Government, commercial banks and financial institutions, and other concerned agencies will have to play a supportive and development role<sup>[8]</sup>. It is to be checked at various stages by maintaining close and continuous dialogue with each other through effective communication. The preventive measures can be taken individually or jointly by having discussion and consultations [4]. In preventing the sickness, therefore, the role of the following agencies has been identified with respective distinction.

- Government
- Commercial banks
- Financial Institutions

### 6.1 The Role of Government

The role of the government is to bring changes in management, by using the authority and power that is available under the Industries Act and the Companies Act [3]. The government can help in controlling sickness by not making sudden and frequent changes in the industrial policies [2]. It has to be appreciated that setting up of an industrial unit is an investment decision, which has to take into account of further returns. When repeated changes are made successively in the industrial policy by the government, it not only discourages new investment but also upsets future plans causing sickness in the established units [2]. Further, in the speeding up of issues of supply or controlled inputs, Government can give considerable help to revive sick Units. The government may also form a committee for continuous monitoring the activities of sick units [7]. This committee may be formed by taking retired officers from public and private sectors with adequate background for continuous monitoring to revive sick units. Monitoring and supervisory service should be improved to ensure proper use of fund<sup>[7]</sup>. An aspect of supervision of this committee might include: to locate surplus assets of industrial units which can be sold, for mobilizing funds.

Government may also help by imposing high tariff on the imported products which compete with the domestic products. Government might also help for BMRE (Balancing, Modernization, Rehabilitation, and Expansion) of the enterprise if needed and for product, diversification wherever possible.

### 6.2 The Role of Commercial Banks

A role of commercial banks is of vital importance to an industrial unit as they provide the unit liquid resources which are needed to keep the unit running<sup>[4]</sup>. Their everyday dealing with sick units enables them to come into close contact with the operations of the unit.

Banks have to ensure so that working capital finance should be available in time as far as possible to avoid not exceeding allotted time in the project cost. Any delay in disbursement may invite several other difficulties such as the

non-availability of raw materials, delay in supply of final product in time [4].

In more difficult cases, reduction in the rate of interest for a temporary period or funding off overdue interest might take care of the problem.

### 6.3 The Role of Financial Institutions

Financial Institutions usually play a major role in the rehabilitation of sick units. In the case of established unit that become sick, financial institutions may come forward to help the sick units in general, which are facing problem due to shortage of working capital, by providing the bank loan.

The financial Institutions and the representatives of industry can also be encouraged to come forward together occasionally with or without government participation with a view to discussing the problems of the industry in general or of any particular industry and evolving solutions including recommendations to government to modify its existing policies [2].

An important aspect of assistance by financial institutions is the conversion of past loans into equity, to provide relief from interest burden [3].

The financial institutions would have to provide the funds, but in all such cases, the financial institutions must start with a new account, keeping in abeyance most of the earlier liabilities of the industrial units. The provision of supplementary financial assistance should be combined with very close supervision.

## 7. CONCLUSION

So far we discussed many factors relating to the supply of capital and the role of financial institutions. But we would like to give relatively more emphasis on application of standard methods of production planning and control for efficient production and those of marketing for efficient selling of products.

We think proper management of organization and financial problems is as important as utilizing and managing all possible resources for efficient production and marketing for rehabilitation of sick industries.

## 8. REFERENCE

- [1] Raman, R. V., "Industrial Sickness in India - A few Leading Thoughts", *Decision, Journal of Indian Institute of Management Calcutta*, Vol. 6 No. 1, January.1979. pp. 3-7.
- [2] Berry, O.P., "Sickness in Industries—Eradiction at the Incipient Stage", *Decision, Journal of Indian Institute of Management Calcutta*, Vol. 6, No. 1, January, 1979. pp. 51-56.
- [3] Simha, S.L.N., "Industrial Sickness and Rehabilitation -Towards a Viable Approach", *Decision, Journal of Indian Institute of Management Calcutta*, Vol. 6, No. 1, January.1979. pp. 87-95.
- [4] Singh, Navneeta , "Industrial Sickness :Causes & remedies", *Annals of Management Research*, Vol. 1, No. 2. Nov.-Dec., 2011. pp. 14-29.
- [5] Ahmed, Nasim , "The Initiation and Promotion of

the Privatization Policy of State Owned Enterprises in Bangladesh: Political –Economic Factors and the Role of Major Policy Actors”, Asian Affairs, Vol. 30, No.4, December. 2008. pp. 18-49.

- [6] Varghese, Roshna and K. Sree Ranganadhan, “Management of Industrial Sickness”. pp. 23 -26.
- [7] Hoque, A. K. M. Solayman, Biswas, S. K. and Wazed, M. A.,”Analysis of Problems of Industries of Bangladesh Becoming Sick”, Proceedings of the Conference on Mechanical Engineering and Renewable Energy 2013 (ICMERE 2013), Held in CUET, Chittagong. December.
- [8] Alam, S.M. Jahirul , “Industrial Rehabilitation Strategy Paper Bangladesh”, Prepared for Ministry of Industries, Government of the People’s Republic of Bangladesh, Dhaka, August, 2013. pp. 1-35.