

CAB seeks cut in power, petroleum prices

STAR BUSINESS REPORT

The Consumers Association of Bangladesh (CAB) has urged the government to reduce electricity and petroleum prices to facilitate a smooth recovery for the country's economy, which has been ravaged by the ongoing coronavirus pandemic, according to a press release issued yesterday.

"It is urgent to cut prices by rationalising the expenditure in distribution cost of fuel and power," said CAB Adviser for Energy Prof M Shamsul Alam in an application to the Bangladesh Energy Regulatory Commission (BERC).

The application comes at a time when a large section of people are suffering from a loss of income amid the pandemic.

The consumers' purchasing capacity has

also declined in an unusual fashion, he said.

"Consumer spending is very low now. As a result, the government is not getting revenue. Consumer spending will not increase unless prices of goods and services decline," said Alam.

Due to these circumstances, the prices of fuel and power have to be slashed in order to bring down production cost so that the prices of goods and services remain low, said the CAB.

In a 13-point proposal to the BERC, the CAB, among others, made an appeal to fix the production cost of electricity and its tariff by excluding capacity charge of rental power plants and suspending power generation by more than 20-year-old-power plants in the both public and private sectors.

FROM PAGE B1

The third is that several loopholes have been left wide open to provide ample room for unscrupulous individuals and businesses to exploit humanitarian aid for private gain.

The banking sector has been tasked with the tremendous responsibility of supporting businesses and individuals during the pandemic as they would channel more than Tk 82,000 crore of the stimulus packages, said Fahmida Khatun, executive director of the CPD, during a presentation.

The reality is that the banking sector of Bangladesh is unprepared to deliver the Covid-19 related liquidity support packages. Most of the major problems in the banking sector continue to persist during the pandemic and are apprehended to get more acute, the CPD said.

"Urgent steps are needed to rescue the banking sector from the quicksand of poor governance, because if it sinks underground it will most likely take the entire economy along with it," the think-tank said.

The CPD said the core objectives of the stimulus packages would hardly be achieved through the Tk 5,000 crore emergency support for the export-oriented industries.

The impact in terms of stimulating economic revitalisation of the RMG sector is rather limited. Raising private consumption through workers' wages could not be ensured due to irregularities in wage payment while despite the credit support, workers' employment could not be ensured.

Rather, there are incidences of unemployment in the RMG sector, the think-tank said.

"In this backdrop, the government needs to rethink about the stimulus package in order to ensure its effectiveness."

The CPD said the stimulus package for SMEs is an important monetary policy instrument. However, the instruments in its current form will hardly achieve the objectives.

The government needs to think of additional measures to ensure that SMEs are actually able to

draw benefits from the stimulus package, it said.

Given the current allocation, coordination, monitoring and infrastructural management of the existing social safety net programmes, this would be arduous to reach the maximum number of beneficiaries amid this crisis.

Besides, the social protection system of the country suffers from the problem of targeting, leakages and beneficiary selection which came at the fore at this critical moment.

Due to these ongoing flaws in the current system such as the distribution mechanisms and corruption in the listing process and its delivery system, more attention in the coming days will be required from the authorities and policymakers, the think-tank said.

In this context, attention will be required to focus on preparing a central database of the beneficiaries for all safety net programmes and enhancing and enforcing the coordination and collaboration both at the local and central level.

Huge demand for loans within a time could make it difficult to exercise due diligence and undertake the inspection of borrowers to examine repayment capacity.

This could end up with disbursement of a good amount of loans to possible future defaulters, said Khondaker Golam Moazzem, research director of the CPD, during a presentation.

About 3.3 per cent of the workers surveyed reported that they had been laid off from their factories, the CPD findings showed.

Unless the business situation improves, incidences of both laying off and retrenchment of workers will increase further in the coming months, the CPD said.

"In other words, fiscal stimulus did not help stop laying off of factory workers. Without any improvement in the business situation, workers would be retrenched in the coming months."

The government needs to rethink about the stimulus package in order to ensure its effectiveness in achieving the stated objectives, it said.

More than 80 per cent of the stimulus packages

would be channelled through the banking system, said Syed Mahbubur Rahman, managing director of Mutual Trust Bank.

Banks have been in a vulnerable situation for the last few years and are lagging behind in terms of international standards. Except for a few banks, all lenders are in a difficult situation, he said.

The implementation of the stimulus packages exposed the banking sector to vulnerability in a way, he said.

There are 14 to 15 per cent NPL in SMEs, so banks are apprehensive to some extent to lend to the entrepreneurs in the segment, Rahman said.

"The stimulus packages have helped the garment sector keep open the factories in the last two months," said Md Fazlul Hoque, managing director of Plummy Fashions.

He is hopeful that the sector would return to the pre-coronavirus level within the next five to six months. Even there is the possibility that Bangladesh's garment sector can do better than in the past as orders might be shifted away from China.

The major challenge facing the garment sector would be to survive in the next six months, said the entrepreneur. "If the factories are up and running, no shuttered factories would receive orders even if there is any opportunity. We are still getting 30 to 40 per cent of the orders because the factories are open."

BB's Lila Rashid said the industries ministry has a monitoring team comprising government and private representatives that has been working for the last two months on the stimulus packages earmarked for the SMEs.

A decision has been taken to set up district level committees under the national committee and the district-level committees would be linked with the central bank, she said.

"We have also started working to come up with a credit guarantee scheme. The process began last year and it was thought that it would run on a limited scale. We are considering to give full-fledged support to the SME sector."

51pc households' earnings plunge to zero due to COVID-19

Brac survey finds

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Earnings of 51 per cent households in the country plunged to zero while a massive 95 per cent people suffered losses in income due to the coronavirus outbreak, a recent study of Brac found.

The study, published yesterday, suggests although daily wage earners have slowly started to regain their livelihood, many of these people and their families will still need support for at least three more months to recover from the setback posed by the pandemic.

The world's largest non-governmental organisation has recently conducted a survey to get an insight into the overall sense of public awareness about the Covid-19 pandemic and its economic impact in Bangladesh.

A total of 2,317 respondents, of which 68 per cent from rural areas and 32 per cent from urban, from different socio-economic backgrounds in 64 districts joined the survey conducted from May 9 to 13.

Around 62 per cent of low-income wage earners lost their work opportunities after the public holiday was declared in late March.

The findings of the perception survey titled 'COVID-19 awareness and economic impact' were revealed at a digitally organised press conference.

Brac Senior Director Shameran Abed accredited the role of MFIs in reaching

cash assistance to vulnerable people and enterprises.

"Getting money to people through banks is challenging since banks lack capacity. A new mechanism is needed and the mobile banking system is already delivering," Shameran said.

The study also suggests that the next plan of actions should focus on getting the economy back on its feet.

Suggestions to tackle the crisis also include strict introduction of a 'pro-poor' lens to review and implement the recovery and rehabilitation plans.

Average monthly household income of the respondents was Tk 24,565 before the public holidays, but that declined to Tk 7,096 in May.

Average income of women-headed households declined 80 per cent whereas men-headed households' 75 per cent.

On an average, 16 per cent of overall households reported that they had food only to survive for 1-3 days, while 3 per cent of the households did not have any food during the survey time.

The survey also found 58 per cent of respondents think that there was an increase in violence against women as poverty was intensified by the pandemic.

Sudipto Mukherjee, resident representative of UNDP Bangladesh, and Abul Kalam Azad, former principal coordinator for SDGs at the Prime Minister's Office, also took part in the event.

FROM PAGE B1

An owner of a large garment factory in Ashulia was compelled to offer 15 per cent discount when his buyers threatened that they would take the goods next year if a big discount is not given.

"Finally, I agreed. I could not make any profit here," he said, seeking anonymity.

Ismail Hossain, managing director of Sharmin Group, also settled for deferred payment with his buyers. "My buyers agreed to take back nearly \$16 million worth of clothing items. The payment would be delayed."

However, the quantity of new work orders went down to nearly 50 per cent because of the coronavirus, he said.

Khan argued that the local suppliers would default on their bank loans soon if buyers delay too much in clearing the payments because

manufacturers need to pay the fabric suppliers.

In garment business, manufacturers purchase fabric from millers with back-to-back letters of credit and most of the payment to fabrics suppliers are made upon receiving the money from the international buyers.

This time, the fabrics suppliers are also getting delayed payments.

Back-to-back LCs are made up of two distinct LCs, one issued by the buyer's bank to the intermediary and the other by the intermediary's bank to the seller.

With the original LC from the buyer's bank in place, the broker goes to his own bank and has a second LC issued, with the seller as the beneficiary. The seller is thus ensured of payment upon fulfilling the terms of the contract.

Rubana saw continued slowdown in exports

till the end of 2020.

"The exports may plummet by 30 per cent to 40 per cent in the upcoming months since the retail market is yet to rebound."

"The impact of the Covid-19 on consumers behaviour is still unknown and our factories are still struggling with cash flow and credits to make a turnaround. We are still in the midst of many uncertainties and changes to foresee future trends."

Factories in Bangladesh have started reopening after Eid holidays with satisfactory presence of workers following proper guidelines to check the spread of the coronavirus, the BGMEA said.

"The BGMEA board is encouraged to see how factories are adopting new innovations at workplaces to better ensure the prevention of the spread of the virus," she said.

A V-shaped economic recovery is still within reach. But the general public must play its part.

FROM PAGE B1

Parkash appeared to be sympathetic to the government's compulsion. But a staggered opening would have been judicious.

"One needs to really understand that both lives and livelihoods are very important."

Risks from coronavirus are high, but the demand to protect the livelihoods of particularly the day labourers, the informal workers and the daily wagers are important, too.

"You know, when you have a situation where, yes, less people are dying, but imagine if we have more people dying of hunger. It's a difficult choice to make," he said, while advocating striking a delicate balance between normalising socioeconomic activities and containing the spread of the virus.

So how can the government find the balance?

He suggests ramping up of the health care procedures, such as testing, tracing and identification, as well as the systems and supplies.

And the non-health-related actions would be to ease up the supply chains, logistics, and the speed of the movement of the essential goods and services.

"We have to be pragmatic while letting the economic activities start but maintain the basic health instructions so that whatever gains have been made over the years, we should not let this coronavirus outbreak lose it. The goal should be to sustain the progress that you have achieved so far."

Which brings us to the topic of what can be done to build on the progress before the pandemic hit in the medium- and long-term.

Parkash feels the pandemic has given the government to reset its industrial policies and many other development goals.

Diversification of the export basket now seems a real possibility, given the shipment of medicines, PPE kits and face masks of late. And there have been talks of export of medical equipment like ventilators, too.

And then there is the matter of companies looking to relocate from China and into new places, and the government should give an honest shot at attracting some of those companies by rolling out the red carpet.

"What I am trying to say is that this pandemic has given us a lot of challenges. But at the same time, I also see that it is opening up several opportunities."

For starters, the government must bring down the cost of doing business. After that, the government should go for some targeted industries and provide the incentives, support and skilled labour.

It is the latter that is most fundamental in making the most of the country's coveted demographic dividend.

"Bangladesh has done well in primary and secondary, but where you really need to invest now is in tertiary education, skills development, skills education, internships. I also feel another area the country can invest in is new technology."

Parkash is a great believer in new

technologies.

"So you look at the average Bangladeshi student, they are so tech-savvy. We could really use them in some of these new areas like robotics, artificial intelligence, IT, data analytics, the Internet of Things, biotechnology."

Globally, these are the trades that are hugely in demand and there is a short supply.

"Right now, Bangladesh has a huge demographic dividend and it does have a population that is very eager to do well. You know, if you look at Korea 20-30 years ago, this is exactly how it was then. They had a desire to do well in life and make their country big and look where they have gone."

So similarly, in Bangladesh, the youth should be at the centre of its development and they are exceedingly innovative. "And if we can give them a proper ecosystem, if we can give them a proper kind of environment, I am sure they can do wonders."

Other than investing in people, in the medium- to long-term Bangladesh needs to invest more in infrastructure, invest much more in climate change, disaster resilience, sustainable urbanisation and also create an equitable society.

But that is in the long-term and medium-term; to get there one needs to overcome the short-term challenges, which are centred on the pandemic.

The role of multilateral lenders has been important in fighting off the impact of COVID-19, so one can wonder if Bangladesh would run into a debt

servicing problem.

But Parkash remains upbeat.

"If you look around, Bangladesh has been one of the more responsible borrowing countries. If you look at the debt to GDP ratio, Bangladesh probably today has one of the lowest ratios in the region. And I must say with my own personal experience, Bangladesh looks at the cost of borrowing every time we actually have a loan negotiation. They look at the cost of borrowing, they look at the tenor, they look at the terms. The track record has been quite remarkable."

His only suggestion is the country should continue in the same vein: be very prudent, be very pragmatic and use the money in a judicious way.

Another thing that is working in Bangladesh's favour is the cost of borrowing, which is very low.

"In a low interest rate environment, borrowing makes a lot of sense, particularly when your own financing, when your own revenue side is having some issues."

Going forward, ADB would be providing more financial support and with favourable terms and conditions as Bangladesh is one of its choice borrowers.

"From my perspective, this development story should continue. There is not another country where I see a 6-7-8 per cent growth rate for such a long time. You know, ten years is a long time. I am hopeful that very soon we will all come out of this crisis. And after that, we will be back on the high growth path that the country had witnessed all these years."

of suitable partners and infrastructure.

A company should also ensure that it has more than one source at all times. For instance, if a company is involved in agricultural production, it should get raw materials from two or more countries. This will ensure that there is continuous supply even when one source is not fully reliable.

The key focus of our sourcing strategies so far was to reduce cost in our quest to build a robust supply chain model. COVID-19 has brought uncertainty to every market we could possibly imagine. We should now introduce new business procedures to combat the post-pandemic challenges.

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Seven new sectors may get tax holiday

FROM PAGE B1

The NBR reduced source tax on export earnings of garment twice in fiscal 2018-19 -- from 1 per cent to 0.60 per cent in September 2018 and further to 0.25 per cent in January the next year -- following pleas from garment makers.

As 1 per cent rate of source tax on exports became effective at the beginning of this fiscal year in July 2019, the NBR slashed the rate to 0.25 per cent later in October and said the privilege would expire on June 30, 2020.

The official said changes are likely to be brought in the income tax to fix the source tax rate for exporters at 0.5pc from the next fiscal year with the objective to enable entrepreneurs to do long-term planning.

The move is likely to come at a time when the worst ever recession since World War II for the COVID-19 pandemic shattered global demands, leading to dip in earnings from shipments from Bangladesh.

Export receipts plunged 18 per cent year-on-year to \$31 billion in July-May of the current fiscal year from that a year ago. However, shipments trebled to nearly \$1.5 billion in May from just over half a billion in April this year, according to Export Promotion Bureau data.

Neither operators nor customers are happy

FROM PAGE B4

"Our shareholders haven't come to Bangladesh to incur losses and it's not possible for investors to carry these losses for long."

Ahmed also said the spectrum pricing formula was a very big hurdle for offering telecom services.

"Spectrum price is much higher than gold and platinum in Bangladesh and highest in the world in different parameters," he quoted a study of GSMA, an industry organisation that represents the interests of mobile network operators worldwide.

Spectrum price per megahertz (MHz) increased from \$12 million to \$20 million in 2011 when the operators renewed their 2G licences, he said.

It was again fixed at \$21 million per MHz in 2017 when 3G licences were awarded and increased to \$27 million and \$31 million in two bands in 2018 for awarding of 4G licences, said Ahmed.

"Spectrum is our lifeline and there is no shortage of it in Bangladesh but its price has increased over the period," he added.

"And moreover the regulator has created different licensing regimes and in doing that they have cut our hands and legs and now we have to take services from other parties which is also very costly."

But on the other hand, because of the competitiveness of the market prices, quality of different services also came down to a world low, he said.

Currently per minute voice call charge is Tk 0.58 and per MB data charge is Tk 0.03, both one of the lowest in the world, Ahmed added.

All the operators have also cut data prices amidst the COVID-19 pandemic, he said. "Data usage has increased about 25 per cent in the industry but it also led to losses for us for price adjustments."

Ahmed also compared data of the telecom industry with that of others between 2011 and 2020.

He said per unit price of electricity had increased 28.3 per cent, gas 106 per cent, water 117 per cent and bus fare 10 per cent whereas voice call charges had declined 35 per cent while data cost 97 per cent.

Revisiting supply chain success through multi-sourcing

FROM PAGE B4

Taking into account three macroeconomic indicators -- GDP, purchasing power parity (PPP) and export growth rate -- we see that along with the BRIC nations, Mexico, Indonesia and South Korea are also considered favourably by the world markets for sourcing goods and services.

Moreover, countries such as the US have changed their trade agreements to make it more hospitable to multinational companies.

Companies also need to ensure that they have multiple sources of raw materials. The technological advancement of the world as a whole may also enable multinational companies to shift their sources from one country to another.

Dependency or over-reliance on a

single country for business sources is also extremely risky. This is due to a variety of reasons key among them being the occurrence of unexpected diseases, epidemic, natural calamities, disasters, and political instability.

For instance, the outbreak of the COVID-19 in China has already cost many companies millions of dollars.

This is because many of the Chinese workers have been quarantined that led to sudden reduction in production.

Over-reliance on one country also leads to rising costs of labour due to increased demand. This is one of the reasons why China is slowly becoming an expensive source of labour for some categories of goods and services.

Dependency on one country may

eventually lower a company's profit. This is because the government's trade policy may change and become highly unfavourable.

For instance, the trade war between China and the US has made the trade policy between the two countries less accommodating for global trade.

Raw materials are also finite. Hence, it is important for companies to diversify business sources.

Acquiring new sources is not easy either. There are many challenges such as language and cultural barriers that make it harder for companies in developing countries to work with certain countries.

The primary factors that companies need to explore before getting multiple sources include availability of skilled labour, cost of doing business in the country, availability