

A Case for Loan Guarantee Scheme for Small Enterprises

by A A Qureshi

THE role of small enterprises including small industries in the economy of our country does not need any long elaboration. Government policy documents regularly recognized the importance of development of small and cottage industries as a means of poverty through employment generation. What however government policy papers often missed was the equally important small enterprises engaged in wholesale, retail and other trades. Statistics show that small and cottage industries (including informal sector) employ over 80% of urban work-force and contribute 80% of total industrial contributions in GDP.

The situation in wholesale and retail business will not be any different. Although there have been some surveys on small and cottage industries in case of small enterprise in wholesale and retail business, transportation, construction, restaurant etc. There is not a single comprehensive study to gauge its economic impact. Thus demand and supply sides problems concerning these important agents of growth remained unattended at national level.

It is painful to see that though small and cottage industries are somewhat defined in policies other small enterprises in Bangladesh are still undefined and in fact there is no official recognition of these enterprises and no special efforts have been made for upgrading them. It may be interesting to see how the Asian Economic Giant Japan handled

their small enterprises. The economic super powers like Japan gave utmost importance to all small enterprises including small industries. Statistics published in the year 1988 shows that small enterprises including small industries accounted for 99.1% of all manufacturing units employing 72.9% of work-force and accounted for 52.4% of the value of shipment in this sector. Small business in Japan account for 80% of all wholesale goods shipped and 88% of all shipped retail goods.

Such being the scenario it easily explains why Japan has highest rate of savings and why they are best in all situations. They realized that small is not only beautiful but also unbeatable for its comparative advantages of risk-averse and risk management. Considering this the government of Japan set up extensive legal framework under which various institutions grew steadily for providing financial, technical and management support to small enterprises for decades. The small enterprises were legally defined on the basis of capital investment and on the numbers of employees engaged.

The vastness (JY 274 trillion equivalent to US\$ 1723 billion) and variety of financial inputs responsible for growth of small business in Japan is amazing. Govt of Japan institutionalized credit system some

50 years ago to ensure easy supply of credit to their small enterprises. They realized that formal financial channels were inadequate to meet needs of small businesses and government's special efforts were unavoidable. Thus Japan helped in moving the traditional entrepreneurs of small family businesses to international status as public companies. Skillful legal bases provided by laws such as (a) Guarantee Corporation Law (b) Small Business Finance Corporation Law (c) Small and Medium Enterprises Basic Law (d) Small Business Investment Companies Law facilitated growth of scores of institutions to provide needed assistance to the small enterprises.

Credit Guarantee System

As early as in 1937 Japan set up Credit Guarantee Corporation of Tokyo under Guarantee Corporation Law to facilitate the small enterprises in getting loans from financial institutions and City based Banks by acting as guarantor of loan. This was in the pattern of model already in existence in Germany at that time. Through the credit guarantee system small manufacturers, wholesaler and retailer together enjoyed needed credits for smooth production and distribution which otherwise was often difficult to obtain from private banks on stiff terms.

One can see the wisdom of non-discrimination in small enterprise-finance because of complementarity of manufacturing and wholesale or retail business. We have seen the usefulness of financing manufacturing units without caring for credit needs of wholesale and retail business in Bangladesh. Small industries were more than often held in ransom in the hand of only few wholesalers who either employed their own vast resources or had access to credit somehow.

Currently Japan has a total of 52 Credit Guarantee Corporations engaged in supplying credit guarantees to small enterprises to secure loans from banks, etc. The system was further supplemented through setting up of Credit Guarantee Insurance Corporation by national government of Japan. The Insurance Corporation was set up for supplementing the Credit Guarantee Corporations in getting loans from financial institutions and City based Banks by acting as guarantor of loan. This was in the pattern of model already in existence in Germany at that time. Through the credit guarantee system small manufacturers, wholesaler and retailer together enjoyed needed credits for smooth production and distribution which otherwise was often difficult to obtain from private banks on stiff terms.

secured after subrogation with lending financial institution. The 52 Credit Guarantee Corporation operates in the designated areas of the country. The business in sectors like agriculture, forestry, fishery, entertaining/leisure, real estate, limited companies, religious and non-profit organization however are ineligible for Credit Guarantee under the system. The size and duration of loan guarantee depend on the purpose and type of business.

Other Auxiliary Institutions

The Study of Loan Guarantee System of Japan for small enterprises would remain incomplete if various other auxiliary institutions engaged in financing small enterprises are not even briefly mentioned. Govt of Japan set up in 1953 the Small Business Finance Corporation (SBFC) under Small Business Finance Corporation Law to promote small enterprises by providing long-term low-interest (2.5%) loans to small and medium enterprises for acquiring fixed assets SBFC which annually lend about JY 2.5 trillion (US\$ 15.8 billion) and carried out outstanding of US\$ 4.1 billion in run independently like private organization under supervision of two Cabinet Ministers. It operates through 846 agents and 15,000 offices.

Under the Small Business Investment Companies Law

three Small Business Investment Companies (SBIC) in Tokyo, Osaka and Nagoya were set up towards building capital base of small and medium enterprises with equity helping them to reach security market and subscribing to bonds issued by them. Venture Capital Companies grew as subsidiaries of banks and Security Companies under the law. There are now as many as 90 Venture Capital establishments in operation in Japan. These institutions were mainly responsible for converting small family business into companies to reach security markets which opened up investment opportunities for savers.

In order that small and medium enterprises can outgrow the challenges from large enterprises and external competition by adapting to changing environments of managerial and technical difficulties Japanese govt set up Japan Small Business Corporation (JSBC). The five objectives (a) Guidance of Small and Medium Enterprises and investing in and financing of structural upgradation of project. (b) Personnel training for small and medium enterprises. (c) Collection and provision of information for small and medium enterprises. (d) Management of Mutual Relief System for small-scale enterprises. (e) Management of Mutual Relief System for pre-

venting chain reaction bankruptcies for small and medium enterprises of JSBC fully indicated how govt. continuously protected and patronized small enterprises to keep them afloat in the survival contest and thus also preserve the interest of small savers.

The study of amazing financial engineering in Japan will be complete only with a reference to the activities of The Shoko Chukin Bank or Central Co-operative Bank for Commerce and Industry founded in 1936 as govt affiliated institution aimed at financing small and medium sized business co-operatives. Through its 97 offices and assets over US\$ 82 billion it assisted 50,000 co-operatives of small and medium enterprises for more than 50 years. It is said to be the largest co-operative bank in the world.

Bangladesh Situation

While loyalty of Japanese workers, sincerity and honesty of Japanese entrepreneurs are doubtlessly superior one can not lose sight of the tremendous credit inputs given to small and medium enterprises of Japan through plurality of govt-engineered supplementary schemes that brought all important growth in this super-economy. In comparison the situation in Bangladesh is appallingly inadequate. Not only the small and medium

enterprises in wholesale, retail and distribution business remained repressed in matters of credit allocations in the financial system even the small industries in formal and informal sectors are deprived of the needed capital for being unable to meet stiff terms of lending at formalized banks whose loan criteria are differently designed for their own existence in consideration of their peculiar risks. It was no different in Japan or Germany and hence their governments saw the wisdom in creating special organizations for growth of small and medium business enterprises.

From this it can easily be perceived why loan guarantee schemes for small enterprises should be introduced without any further delay by govt on the pattern used in Japan. Experts from Japan can help us in this area. What is also needed is the sound legal frameworks to be set up like Japan so that institutions can grow to cater needs of small and medium enterprises be it in the area of working capital, equity finance or long term loans. In all these efforts government must play maker's role.

Formerly Managing Director of Sonali Bank and now Managing Director, Bank of Small Industries and Commerce Bangladesh Limited, the writer is grateful to Mr Masanori Abe, Chief Representative of The Bank of Tokyo who supplied information on the Japanese Credit System.

THE tiny patrol boat run by just one policeman and two civilian 'fish wardens' caught the trawler red-handed. It had a crew of 139 and had already cast its illegal nets just off Alabat Island in Quezon Province of the Philippines.

"We apprehended the vessel and brought it into port, where we confiscated the equipment before releasing the crew," says Magtanggol Villabrosa, the mayor of Perez, one of the island's three towns. He is proud that they have been able to deliver a blow on behalf of the island's beleaguered fishermen.

It is illegal in the Philippines for commercial vessels weighing three tonnes or more to fish inside the seven-kilometre coastal zone. It is also unlawful to use methods such as muro ami (pounding on coral and scaring fish into nets), dynamite and cyanide fishing, which destroy marine life indiscriminately.

Implementing these bans is part of the government's ambitious \$155 million Fisheries Sector Programme, which could serve as a model for many other countries in the Asia-Pacific region.

The programme, launched last year, is the first phase of a comprehensive scheme aimed at combating destructive fishing practices, rehabilitating coastal areas through resource management, alleviating the poverty of subsistence fishermen and strengthening the capabilities of the implementing agencies.

It is financed by an \$80 million loan from the Asian Development Bank (ADB) and \$75 million from the Overseas Economic Co-operation Fund of Japan.

FISHERMEN STRUGGLE TO ESCAPE POVERTY TRAP

Dynamiting and cyanide poisoning are two of the indiscriminate methods used by commercial trawlers fishing illegally in the coastal waters of the Philippines. The devastating effect on the environment and destruction of fish spawning grounds is forcing more local fishermen and their families to live below the poverty line. Gemini News Service looks at a programme to help alleviate that poverty and to protect and replenish the resources of the archipelago's 30,000 km coastline. by Ian Gill

Papua New Guinea has sent experts to study the programme, which could also benefit other countries with a significant fisheries sector, such as Sri Lanka, Indonesia, Malaysia and China.

The programme is currently being implemented in three priority bays — Caluang Bay (including part of Lamong Bay) in Quezon, Carigara Bay in Leyte and Pangasin Bay in Mindanao — but it is planned to extend it to nine other bays by the end of this year.

Fisheries resources in the Philippines have declined tenfold in the past decade, creating great hardships for local fishermen — who make up five per cent of the total labor force — and their families. Currently, 80 per cent of the subsistence fishermen earn less than the poverty line figure, which is the equivalent of US\$93 a month.

The use of muro ami nets, dynamite and sodium cyanide poisoning, plus souvenir hunting, have destroyed 70 per

cent of the shallow-water coral reefs which are the spawning grounds for fish. The marine environment has also been polluted by municipal and industrial waste and has been clogged by sediment as a result of deforestation.

And while fish resources have dropped sharply, the population of subsistence fishermen has doubled.

"We have to change people's attitudes," says Alab Akanda, an economist with the ADB, which is also advising on



FISHING FOR NEW IDEAS
Subsistence fisherfolk in Quezon Province learn about coastal resources management

the programme's implementation. "Fishing communities have to understand that community-led resource management, together with the development of viable alternative livelihood projects, will be the only way to relieve the tremendous pressure on over-fished coastal waters and to allow regeneration of fishery resources."

Community involvement is particularly important in the battle against the "illegals". The Philippines archipelago has 30,000 km of coastline, making law enforcement by the Coast Guard a practical impossibility.

The community-based approach is also crucial in other areas of the programme, such as coastal resource management — including mangrove reforestation — and in finding alternative livelihoods for fishermen being asked to make the considerable sacrifice of not fishing in areas designated as sanctuaries and artificial reefs.

"This is hard," says Guillermo Morales, programmes director for the Department of Agriculture. "Fishing is all they know."

Fishermen can be encouraged to make a living from raising crops or livestock, and another alternative is mariculture, the controlled rearing of aquatic plants and of animals in coastal areas.

"This is already practised in a few regions of the Philippines and can easily be expanded to other areas," says Zhou Weidong, a Chinese fisheries specialist with the ADB programme. "They can cultivate oysters, mussels, seaweed and different kinds of fin-fish species in fish cages."

— GEMINI NEWS.

Soviet Changes put India in an Economic Whirl

The sweeping changes in Moscow have shaken India. Its dependence on trade, arms and technical help from the old Soviet Union since the Fifties has been huge. Suddenly New Delhi is feeling economically naked. A rupee-rouble agreement meant that India did not pay for Soviet goods in hard currency. Now it may have to do so. And on the political side, reports Gemini News Service, it can no longer count on Soviet support at the UN on matters like Kashmir. by D. K. Joshi



MADHAVSINGH SOLANKI
crucial commodities is in jeopardy, but also the mode of payment. India's balance of payments crisis will deepen further if the US and the independent republics dismantle the rupee trade — as other former eastern bloc countries (except Czechoslovakia) have done.

India, under its new Foreign Minister Madhavsingh Solanki, is anxious to resume contacts with Moscow at the

highest political level because, as Foreign Secretary Muchkund Dubey has pointed out, some difficulties cannot be solved at the technical level.

Before the abortive coup, India and the Soviet Union had not had political-level dialogue for almost a year. New Delhi was looking forward to a visit planned for the end of this year by former Soviet Foreign Minister Aleksandr Bessmertnykh, a victim of the coup.

Ironically, the advent of President Mikhail Gorbachev's perestroika and glasnost was the beginning of Indian worries. Independence of the eastern European countries from Soviet domination and the impasse USSR role in the US-led war against Saddam Hussein gave India a fright.

The worry is that Moscow may no longer act as a countervailing force against Pakistan in international forums by using its veto on the Kashmir issue in India's favour in the Security Council.

The close Indo-Soviet relationship began in the early Fifties with the intensification of the Cold War and Indian refusal to be part of a Washington-led military alliance against Moscow.

India adopted the Soviet model of Gosplan in 1956 and Nehruvian socialism was dovetailed with that of Lenin. The Soviet Union provided extensive economic and military aid to India.

When the West hesitated to provide sophisticated military hardware to India while the US armed Pakistan, it was Moscow that gave military help to New Delhi with MIG aircraft, missiles, tanks and helicopters.

Well-advanced Indian basic industries like steel and oil are largely the result of Soviet inspiration and technical assistance.

When Indira Gandhi returned to power in 1980 she began to diversify arms purchases. The first major Western order was a contract with Britain for Jaguar aircraft.

Then came contracts with Bofors of Sweden for 155mm howitzers, HDW of West Germany for submarines, and Mirage 2000 aircraft from France.

It is estimated India has spent Rs 45 billion a year on arms for the past two decades. In the Seventies, 95 per cent of that went to the Soviet Union and, despite diversification in the Eighties, the figure still stood at about 70 per cent.

The MIG aircraft from the 21 and 29 series, T-65 tanks and MI series helicopters in full use now need many spare parts. India senses a growing lack of interest in Moscow to supply India.

— GEMINI NEWS

Burma's Teak Forest Intact

THE world's largest teak forest is far from endangered, according to Burmese officials.

In fact, it will continue to be Burma's major source of foreign exchange.

A government official has deplored criticisms that the country has opened its teak forests to Thai loggers. The government, he said, is just taking over what is rightfully Burma's forests which insurgents have been exploiting in the last 40 years.

Now that the border area is under state control, logging concessions have been granted to the Thais to improve political and trade relations, the official said. But no one has complained of the logging made by rebels before, he complained.

Since July 1989, no logging concessions have in fact been granted, says Lt. Gen. Chit Swe, the minister for agriculture and forests. Existing concessions will not be extended.

Indeed, the short-term concessions under state stewardship only allowed the Thais to fell marked trees of fixed girth. Clear cutting and the felling of under-sized trees were prohibited.

The Thai firms were allowed to extract annually some 50,000 tons — 10,000 tons of teak and the rest hardwood. The concessions earned Burma some US\$29.57 million.

Ninety per cent of the

world's teak trade comes from Burma. In the fiscal year that ended last March, Burma targeted the logging of 418,000 cubic tons of teak and 1.9 million tons of hardwood. From that, foreign firms would extract 98,000 tons of teak and 431,000 tons of hardwood.

Forestry became the major dollar earner in 1989-90 when it fetched US\$163.58 million, or 32 per cent of total exports. The traditional major earner, agriculture, went down to second, with only 19 per cent of total exports, down from 40-50 per cent.

The private sector handles all forest produce, but teak logging is strictly controlled by the government. In 1990, Burma exported 177,000 tons of teak logs.

Forestry officials say that satellite photos show that Burma has a good forest cover. Gen. Chit Swe said the country could go along with the annual extraction rate of 350,000 cubic tons of teak and 1.3 million tons of hardwood until the year 2000.

In the last 10 year, he said, some 800,000 acres of tree plantations have been planted. Of this, nearly half were for timber for domestic use and exports. The rest were earmarked for village firewood, posts and poles, for catchment protection and erosion control and 50,000 acres for paper mills.

Gen. Chit Swe said Burma's

forest cover is 57 per cent intact, while a forestry official puts the figure at 50 per cent. Critics have said the forest cover has gone down from 57 per cent to 40 per cent.

Official press reports in the 1980s say that a fourth — or 25,700 square miles — of Burma's forests were depleted in 1980 alone. Official pronouncements in the 1980s warned of an alarming rate of forest depletion due to indiscriminate logging and slash-and-burn farming. In the 1980s, in easily accessible areas, logging was four to eleven times the normal.

But Burma also boasts of 722 forest reserves covering 38,667 square miles. Public forests cover another 111,123 square miles. The plan is to extend the protected area system from 1 per cent of total forest cover now to 5 per cent.

The 722 forest reserve currently represents 14.8 per cent of the country's forest cover while public forests make up about 42.5 per cent.

The World Bank and the UN Development Programme (UNDP) have funded forestry projects. The UNDP, for example, has contributed US\$2.1 million for a pilot fuelwood project which ends in 1991.

The World Bank and Finland have co-financed a plywood factory, the country's fifth and the first for northern Burma. The Asian Development Bank has also assisted in the construction of a sawmill in Anaprapura, off Mandalay.

Gen. Chit Swe, in opening the plywood factory, said it was about time for Burma to reduce its export of raw logs and switch to finished products with added value.

Chinese Crack Down on Tourism Rackets

ON the back from the Badaling section of the Great Wall, a group of Japanese tourists sitting in an air-conditioned coach listened attentively to their Chinese tour conductor.

"It's a hot day today," said the tour guide. "All of you want a cold drink. Not far away ahead, on the roadside, there is a souvenir shop where you can refresh yourselves and buy some small things if you like."

His suggestion was hailed by the travel-weary visitors, most of whom were on their first visit to China. They did not notice the grin that stole over their guide's face. Nor did they realise that the tour guide and the driver would get a commission on the sales of the rather shoddy souvenirs that they would be pressed to buy.

This is one of the tricks used by some Beijing tourist guides and drivers, in conspiracy with "black shops" to entrap overseas travellers. In July the city launched a campaign against such profiteering.

Sixteen hotels, restaurants and stores have been banned from tour group itineraries and 13 have received warnings. Every travel agency and taxi company in town is being asked to check if its guides or drivers are guilty of taking bribes or kickbacks.

The crackdown is aimed at stamping out these malprac-

tics and so restoring the capital's somewhat tarnished reputation, said Bo Xicheng, director of the Beijing Tourism Administration (BTA).

He said most of the victims of the rackets are Japanese and overseas Chinese, who are more likely to be attracted by traditional Chinese paintings and medicines which are easily counterfeited. "The conspirators often profiteer by selling cheap counterfeits," Mr Bo said.

A painting, wholesaled at a price of 120 yuan (US\$22), could be sold for 14,000 yuan (US\$2,570) at the Great Wall Friendship Store. Another store sold a counterfeit painting under the name of Xu Beihong, the late great Chinese artist, for 21,000 yuan (US\$3,850).

According to a BTA report, a tour guide may have a 30 per cent share of the total sales of ordinary commodities, rising to 40 per cent on medicines and over 50 per cent on counterfeit paintings.

There are other tricks, too, the report said. A guide might take his tourist group to a restaurant, which was not on the itinerary, of dinner. He would collect 100 yuan (US\$18) from every member of his party but only pay 50 yuan (US\$9) to the restaurant. The balance went into his own pocket.

"There illegal acts have seriously defamed China's tourism and made a bad impression on people both at home and abroad," said Mr Bo, leader of a crackdown enforcement group composed of officials from BTA, municipal bureaus of culture, public health, and industry and commerce as well as local police and representatives of legal bodies.

To date, shopowners and vendors have been fined a total of more than 400,000 yuan (US\$73,395) for their malpractices. The enforcement group also confiscated over 260,000 yuan (US\$47,700) of their illegal income and 1,440 counterfeit paintings.

The BTA has designated, for each of the city's more than 80 travel agencies, a 5 per cent quota of the number of tour guides against whom action should be taken.

State-run shops such as the Friendship Store and the Rongbaozhai Art Gallery, which do not give commissions to tour guides and drivers and therefore had been less well patronised by overseas tourists, seem to have benefited from the crackdown.

Said a tour guide, "There days I take tourists to the Friendship Store only, lest I am said to be cheating them."

Tourism is one of China's leading sources of non-trade foreign currency income.

Probably out of a fear that a cleanup might backfire, officials had been turning a blind eye to corruption within the industry.

However, complaints from both domestic and foreign tourists made the BTA determined to check these anti-social tendencies. "Although the old saying holds that 'domestic shame should not be made public,' we decided we'd better expose our own evils rather than wait to be cracked down on by someone else," Bo Xicheng said.

He said the swoop on fraud and corruption was paving the way for a healthy development of Beijing's tourism and would assist China's tourist promotion year and Beijing's golden travel year in 1992. "We have received support from people in all walks of life," Mr Bo added.

Tourism in Beijing, which was crippled by the events of June 4, 1989, has recovered from a low ebb. The number of overseas tourists to the city in the first half of the year was 550,000, equalling that of the peak year 1988. The amount of foreign currency earned during the period was US\$380 million, an increase of 28.8 per cent over the 1988 record.

According to the BTA, Beijing is expected to receive 1.2 million tourists by the end of the year. — Depthnews

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