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China signs WTO deals with Norway, Iceland

SHANGHAI, Jan 29: China has signed agreements with Norway and Iceland on its entry to the World Trade Organisation (WTO), the official People's Daily said today, reports Reuters.

China's chief trade negotiator Yongtu signed the accords with the two nations in Geneva on Friday, the newspaper said.

Beijing sealed agreements on WTO with Uruguay, Peru and Cuba this week, official media have said.

China and the European Union recently concluded two-and-a-half days of talks on Beijing's bid to join the 135-member WTO, but key issues remain to be worked out in another round of technical negotiations in Beijing in late February.

The newspaper said the latest round of talks with the European Union had made "substantial" progress.

A joint statement issued by China and the EU on Wednesday said officials discussed market access for industrial and agricultural goods. On industrial goods, talks focused on tariffs and the phasing out of quotas, the statement said.

They also discussed telecommunications, financial services, distribution, tourism and legal and accounting and other services where the EU wants greater access for European companies to the Chinese market.

China and the United States clinched a landmark WTO deal in November last year, but the agreement now faces a political battle in Congress.

UCBL managers' meet talks new business strategy

Star Business Report

The Executive and Branch Managers' Conference-2000 of the United Commercial Bank Ltd has reviewed the activities of the bank and adopted new action plans for revamping the operational activities in line with the socio-economic and global changes.

The review was made at the conference of the bank held at a city hotel on Saturday with Chairman Zafar Ahmed Chowdhury as the chief guest.

M A Sabur, Vice Chairman, Abul Khair Chowdhury, Chairman of the Executive Committee, Md Jahangir Alam Khan, Director, K C Rezaul Huq, Managing Director, Hamidul Huq, Addl Managing Director, Md Salauddin Gazi, Deputy Managing Director, Executive vice presidents other executives, and incharge of all branches throughout the country attended the conference.

The conference was devided into three sessions.

Speaking on the occasion, Zafar Ahmed called upon the branch managers to continue their determined efforts to further accelerate the growth of business by extending first-rate client service to match the banking needs at the advent of the new millennium for contributing towards the socio-economic development of the country.

He expressed gratitude to the clients, representatives of trade, commerce and industries, national media and Bangladesh Bank for extending unstinted support for UCBL to overcome months of prolonged crises affecting the upward growth of the bank.

Md Jahangir Alam Khan detailed the bank's role in the private sector.

The managing director of UCBL outlined the performance of the bank in various core sectors and disclosed that the bank has been able to achieve reasonable growth, registering a profit of Tk 41.10 crore.

Abul Khair Chowdhury and M A Sabur also spoke on the occasion.

Hamidul Huq, Addl Managing Director, called upon the branch managers to march ahead with adequate business drive with professionalism to further strengthen the bank's position in the mainstream of banking in the country.

New DMD of National Bank

Mustaque Ahmed, Executive Vice President of National Bank Limited has been promoted to the rank of Deputy Managing Director, says a press release.

Mustaque started his career in the then United Bank Limited Pakistan as a probationary officer grade-II in 1970 and later he served in Janata Bank as a manager of different branches.

During his long banking career, he also held many important positions.

Mustaque is a widely travelled.

DILF helps local industries lure more foreign buyers

Star Business Report

The just-concluded second Dhaka International Leather Fair (DILF) 2000 played a crucial role in attracting more foreign visitors and establishing a direct contact between the buyers and the sellers.

Leather and leather goods manufacturers and exporters of the country, local agents of different foreign companies -- which supply machinery, chemical and accessories -- participated in the three-day gala exposition at Sonargaon Hotel in the city.

"The demand for Bangladeshi leather and leather goods is increasing day by day in the international market and the holding of the fair every year will help generate new buyers," said Md Jasimuddin, Export Manager of Samata Leather Complex Ltd.

To increase the country's export, the entrepreneurs have to produce quality products at competitive prices, he observed.

"There are only a few plants in the country which manufacture quality leather products. We tumble in our bid to lure more foreign buyers as the local industries fail or don't bother about maintaining product quality. It is necessary to build the capacity of the exporters," said an executive of Carlos Leather Fashion Ltd.

"Of course, price is an important factor. But it is more important to produce quality goods and the exporters should procure modern technology for producing good leather and leather goods," he added.

As foreign companies also participate in the fair, it helps the local entrepreneurs obtain ideas about technology upgradation for quality production, said another participant.

Apart from 25 foreign companies, 43 local leather and leather goods manufacturers also participated in the fair which ended Saturday, said the organisers.

Bangladesh Finished Leather, Leather Goods and Footwear Exporters' Association (BFLLFEA) and the Export Promotion Bureau (EPB) jointly organised of the fair.

"Around seven foreign importers visited our stall and expressed their willingness to import our chemical products because these are cheaper," said M Afzal Ali, General Manager of Wata Chemicals Limited.

The response of the local visitors to the fair was also satisfactory, he added.

"Our expectation is not very high, nor did we hope for big deals from the event. It's just the beginning and we expect that the fair will help us win new buyers," said an executive of H & H Leather Industry Ltd.

Foreign buyer turnout during the exhibition was very few, but it will, in any way, have a good impact on this sector, he added.

More entrepreneurs will be interested in producing leather goods if quality finished leather is available in the local market, he said, adding that the price of finished leather was a bit higher in the local market as the procurement cost of raw materials are comparatively higher.

Long-term loans should be made available for the export-oriented industries with a view to helping these in procuring modern equipment, observed a Universal Leather Products Ltd executive.

Youngone, Unocal chiefs receive AmCham awards

The American Chamber of Commerce in Bangladesh (AmCham) held its annual Business Awards presentation ceremony at Dhaka Sheraton Hotel yesterday, says a press release.

AmCham presented 1999 Business Executive of the Year award to Kihak Sung, Chairman of Youngone Corporation, and Outstanding American Company of the Year award to Unocal Bangladesh Ltd.

The function was addressed by Kihak Sung, Terry Budden, President and Managing Director of Unocal Bangladesh Ltd, John C Holzman, US Ambassador in Bangladesh, and David Rees, CEO of Citibank NA.

Forrest E Cookson, President of AmCham, presided over the function.

The picture shows Kihak Sung (4th from left), Chairman of Youngone Corporation, with AmCham Business Executive of the Year award and Terry Budden (2nd from right), President and Managing Director of Unocal Bangladesh Ltd, with Outstanding American Company of the Year award. Among others, US Ambassador in Bangladesh John C Holzman and AmCham President Forrest E Cookson are also seen. —AmCham photo

IBBL Board meet held

A meeting of the Board of Directors of Islami Bank Bangladesh Limited was held at the boardroom of the bank Thursday, says a press release.

Presided over by Commodore Mohammad Ataur Rahman (retd), Chairman of the bank, the meeting was attended by local and foreign directors including Yousif Abdullah Al Rajhi, Representative of Al Rajhi Company for Industry and Trade, KSA and Professor Korkut Ozal, Representative of Islamic Development Bank (IDB), Jeddah, KSA.

The meeting evaluated the overall performance of the bank during the year 1999 and expressed its satisfaction over the achievements made so far.

The deposit of the bank stood at Tk 2550.03 crore as on December 31, 1999 as against Tk. 2038.52 crore of the previous year, registering an increase of Tk 511.51 crore or 25.09 per cent total investment stood at Tk 2283.98 crore compared to Tk. 1736.62 crore in the previous year, registering an increase of Tk 547.36 crore. The volume of foreign exchange business increased by Tk. 211.58 crore raising the same to Tk 4360.90 crore compared to Tk 4149.32 crore in the previous year. The rate of growth is 5.10 per cent.

The board also approved the budget and business plan for the year 2000 and discussed some important policies and strategies to achieve and maintain sustainable growth in the first year of the new millennium and beyond.

Lanka makes big progress in tourism

COLOMBO, Jan 29: Sri Lanka has made a big progress in developing the tourist industry in the past five years, sources from the Ministry of Tourism and Aviation said today, reports Xinhua.

The tourism sector in Sri Lanka has generated direct and indirect employment for over 90,000 persons and earned 1.36 billion US dollars during the last five years, according to the sources.

This period has also been labeled as the most significant in the tourism sector since the country's independence in 1948, the sources quoted a report issued by the ministry recently as saying.

Nepal finance minister quits

Row over NRB governor appointment

KATHMANDU, Jan 29: The Nepalese finance minister Mahesh Acharya has resigned after a dispute with the prime minister over the appointment of a new central bank governor, ministry sources said today, reports AFP.

"Finance Minister Acharya submitted his resignation to the prime minister on Friday. He left his office, bidding goodbye to ministry officials saying he would not be in on Monday," one source said.

The dispute arose after Prime Minister Krishna Prasad Bhattarai named Tilak Rawal as governor of the central bank, Nepal Rastra Bank (NRB), instead of Acharya's choice of Finance Secretary Ram Binod Bhattarai.

The post was left vacant after Governor Satendra Pyara Shreshtha retired on January 17, ending a four year tenure.

"At last Thursday's cabinet meeting Acharya had strongly opposed the prime minister's intention to appoint Rawal as the new governor of the NRB," the source said.

"Acharya then proposed Ram Binod Bhattarai for the post."

Sources said Acharya's opposition to the prime minister's choice stems mainly from Rawal's stint as executive chairman of the Rastriya Banijya Bank (RBB).

Rawal claimed the RBB had made large profits and his efforts had saved the state owned bank from collapse.

But an independent study last year found RBB's financial position had in fact deteriorated during Rawal's time.

Acharya was unavailable for comment.

Zafar Ahmed Chowdhury, Chairman of United Commercial Bank Ltd, addresses as chief guest the inaugural session of the Executive and Branch Managers' Conference-2000 held at a local hotel yesterday. M A Sabur, Vice Chairman, Abul Khair Chowdhury, Chairman of the Executive Committee, Md Jahangir Alam Khan, Director, K C Rezaul Huq, Managing Director, Hamidul Huq, Addl. Managing Director, and Md Salauddin Gazi, Deputy Managing Director, are also seen in the picture. — UCBL photo

Commodity: Weekly Roundup

Oil dips as hopes for output cutback extension dwindles

LONDON, Jan 29: Oil prices fell back this week amid profit-taking of recent sharp gains, as hopes dwindled of an extension to producer output cutbacks, says AFP.

The Brent North Sea reference crude fell to 25.70 dollars a barrel for March delivery on the International Petroleum Exchange in London from 26.76 dollars last week for February.

On the New York Mercantile Exchange (NYMEX), light sweet crude for February delivery fell to 27.62 dollars from 29.66 dollars last week.

Prices peaked at new nine-year high points early in the week as a US cold snap increased demand, eating into already low stock levels.

But prices fell after Norway and Saudi Arabia both said that crucial output cutbacks should remain in place until the end of March as planned, but said nothing about an extension to the cuts.

Rubber: Bounce. Rubber prices gained ground this week in a calm market. The arrival of winter in some Asian producer regions could limit supply, helping prices in coming weeks, one London dealer said.

The London rubber index jumped to 482 pounds per tonne (for February delivery) from 455 last week.

Meanwhile, in Kuala Lumpur, the RSS1 index rose to 2.64 ringgit per kilo from 2.46 ringgit, while the SMR20 index for material used in tire-manufacturing rose to 2.85 ringgit from 2.74.

Tea: Weak. Demand fell away in the Mombasa auction houses but picked up in Colombo.

Top-grade BP1 (Broken Pekoe) leaves managed to claw back last week's losses by gaining up to 13 cents, but PDust, which is used mainly to make tea bags, fell up to 25 cents.

Vegetable oils: Warm. US soya prices gained further ground this week amid predictions of dry weather over South American producer regions.

On the Chicago Board of Trade (CBoT), a bushel of soya gained 22 cents to 5.27 dollars (for March delivery).

Dry weather has reigned over Argentinean and southern Brazilian crops, but wetter weather has been forecast for the coming days.

Cotton: Fine. US cotton prices picked up this week in calm trading with few new market-moving factors.

In New York, May contracts rose to 58.82 cents a pound from 58.76 cents.

Cash prices covered by the Cotton Outlook index rose to 50.10 cents a pound from 47.20 cents.

Genetically modified organisms

Negotiators agree on bio-safety trade pact

MONTREAL, Jan 29: International negotiators have reached agreement on an environmental pact to regulate trade in genetically modified organisms used in food production, a top US official said today, reports Reuters.

The Biosafety Protocol would allow countries to use precautions when making decisions on imports of genetically modified crops. But it would also have equal standing with World Trade Organisation (WTO) rules that require such decisions to be based on sound science.

"On balance, we think this is an agreement that protects the environment without disrupting world trade," David Sandalow, Assistant US Secretary of State for Oceans, Environment and Science, told reporters.

The pact would require shipments of genetically modified commodities to bear labels saying they "may contain" genetically modified organisms and are not intended for intentional introduction into the environment.

It would also require countries to begin negotiations on more specific labelling requirements to take effect no later than two years after the protocol enters into force.

SME access to credit, movable asset-based lending in Bangladesh

by Dr Zia U Ahmed and P Meagher

Small and Medium Enterprises (SMEs) play a vital role in the economic growth and development of a country, and a pivotal role in non-farm employment generation. In Bangladesh, SMEs face a gauntlet of obstacles, including severely constrained access to finance. Empirical studies show that most SME owners obtain start up capital from personal sources — families, friends or relatives — a major portion of which is used to procure machinery, meet installation costs and cover other related start up costs, leaving almost nothing for operations and maintenance. Poor access to working and expansion capital from commercial banks has been identified as a key constraint to the growth of these enterprises. Conservative practices of commercial banks and a weak legal framework are among the major reasons for this problem of poor access to credit for SME borrowers.

Research on access to credit in Bangladesh, and the experiences of SME borrowers and the commercial banks suggest that the most important constraint to SME credit is 'inefficiency in the system of collateral security. As a result of this, financial institutions in Bangladesh strongly prefer real estate mortgages as security. Most SMEs fail to get credit, since they do not usually own adequate real-estate.

This seemingly intractable problem can be addressed by reforms that have proven successful in many other countries. With appropriate public support, these reforms would be relatively easy to put in place. If this can be done, it will give SMEs, and the economy, a much-needed boost. The question is simply this: Can all sides cooperate to bring about this desirable result?

Some factors affecting SME access to credit

Most SME borrowers feel that bankers hold a rigid attitude towards them. The bankers treat SME loan proposals with a more stringent set of loan qualifying criteria than those for larger organisations. The bankers, in practice, try to avoid financial transactions with the SMEs. There are at least four reasons for this kind of behaviour: 1) bankers want to avoid risk, 2) they want to reduce the transaction and supervision costs, 3) they would prefer to keep steady working relationships with a small number of larger organisations as opposed to a large number of small enterprises, and 4) their lack of experience and confidence in dealing with small-scale, non-traditional credit market.

Banks require highly valued collateral, preferably immovable property (i.e. land and buildings) against loans. In most cases, the SME owners do not own adequate immovable property, and the assets that the SMEs can provide are rarely accepted as a principal source of security for loans. Bankers claim that given the pervasive default culture, stringent collateral requirements are necessary to keep the applicant under pressure to repay the loan. In the context to the Bangladeshi culture, a great social value is attached to one's land and residence. When someone goes to a bank and mortgages his land and home, the applicant remains under tremendous pressure to repay the loan. In case of default, he loses face to his family, friends, neighbours, etc. if the bank forecloses on his residence.

Small borrowers also claim that the absence of comprehensive guidelines is another hindrance for SME financing. The commercial banks do not have precise guidelines for SME borrowers, resulting in confusion and uncertainty. The cumbersome procedures and rigid documentation requirements for loan application lead to additional transaction costs on the small borrowers. The long loan processing time and the uncertainty associated with this delay discourage most SMEs from seeking institutional loans and force them to take loans from informal sources that are speedier but much more costly.

However, the bankers claim that most of the SME borrowers do not have sufficient understanding of the application procedure and necessary documents to access a loan facility. Often, when applying for loans, SMEs cannot show a proper track record of their business operations. The entrepreneurs do not know how to prepare financial statements like balance sheets, income statements, cash flow statements and so on. This makes it difficult for the bankers to evaluate the viability of the venture. Also, there is no "database or information bank" of SMEs from which the bankers can receive necessary information pertaining to a borrower's business when required. It is difficult for a banker to approve a loan application if the applicant is new to the bank. Consequently, SME applicants require a long time to provide necessary documents to fulfil loan formalities that are satisfactory to the bankers. So, the "banker-customer" relationship plays a pivotal role in determining the loan processing time and costs.

Absence of an updated, appropriate and transparent legal framework for enforcing quick loan recovery is another predicament for bankers. Most laws regarding loan recovery are remnants of the colonial era, and as such fail to anticipate problems resulting from contemporary business relationships. Legal enforcement against defaulters for recovery of loans is very difficult in the prevailing legal system. Another facet of this problem is that, although the banks can give loans against collateral, they cannot easily foreclose on the collateral upon default. It is absolutely uncertain when the bank will get back the defaulted loans. If a bank files a default case, it will take the court months or even years to reach a decision. Even if the verdict goes in favor of the bank, the bank will have to apply for and obtain execution of the court's verdict. Even if the bank can recoup the disbursed amount after a long time, it is still a loss for banks considering the time value of money and other costs associated with recovering the money. These implementation problems increase the risk averse behaviour of bankers.

Despite these institutional bottlenecks, some bankers hold a positive view of advancing loans to SMEs as they are considered to be good borrowers compared to large enterprises. With the success of micro credit operations and the experimental lending activities of some financial institutions like MIDAS, Proshika, Sonali Bank, Agrani Bank, Islami Bank Bangladesh Ltd., Bangladesh Krishi Bank, BASIC, etc., some bankers now feel that SMEs have a better repayment record than the larger borrowers, and that the willful default culture is not prevalent among the SMEs, in general.

Movable asset-based lending to SMEs

The traditional system of lending against real-estate mortgages cannot offer the SMEs and financial institutions an efficient mechanism for credit transactions. However, there are other powerful means in modern secured finance to address the needs of small enterprises with more ease and less formality. Some alternatives to real-estate collateral security could be used in Bangladesh, particularly for loans to small enterprises, are use of salami/possession rights and other movable assets, such as: accounts receivable, proceeds of sales, future interests, chattel paper, inventory (non-possessory), consigned goods, fixtures, equipment and vehicles.

In this regard, the use of the inland back to back L/C can be a good example. In Bangladesh, the large enterprises sometimes outsource or subcontract many supply and assembly jobs to SMEs. These SMEs can pledge these work-orders to the banks and obtain funds for working capital. For example, a leading footwear manufacturer could subcontract out the assembly of slippers for the domestic market to many small enterprises. These small assemblers could go to their banks and obtain finance for working capital to complete the job against the work orders given by the large manufacturer if that buyer placed the order through an inland L/C from its bank.

Another practice that can be developed to solve the credit access problem of the SMEs is to popularise the use of chattel paper financing of institutional borrowers. While commercial banks are reluctant to lend to small borrowers, there are other financial institutions directly serving that market. The large commercial banks can indirectly finance the small and medium enterprises through the use of chattel paper security of the second tier finance institutions.

For example, suppose there is a large national Micro Finance Institution (MFI) with longstanding experience of lending to small and micro enterprises and a very high recovery rate on those loans. This MFI could put together a large number of its outstanding small enterprise loans, say 1000 loans, in a packet and approach a commercial bank to borrow funds by pledging the loans. By securitizing the bundle of individual small loans, this MFI could borrow from a formal bank and on-lend to its small borrowers. When lending, the commercial bank will have to monitor the MFI, particularly its credit rating and such factors as recovery performance of the small loans, supervision and monitoring of the loans, types of borrowers, their ventures, the cash flow of the MFI, etc.

In Bangladesh, it is the institutional rigidity of banks in an environment of poor loan recovery that discourages them to give loans to SMEs against movable assets. However, commercial banks in Bangladesh accept movable assets as security to finance their big clients for certain types of credit operations. In these cases, the applicants do not have to pledge any security other than the goods being acquired to get the financing (beyond the initial margin requirement for opening the Letter of Credit). But this type of movable asset-based credit facility is available to the big borrowers only and is not made available to the small borrowers.

By contrast, when a production-oriented small manufacturer applies to a bank for financing, the project itself is accepted as the primary security beyond the equity investment, and in addition to this primary security, the applicant has to mortgage some immovable assets (i.e. land, buildings) as collateral, which is considered secondary security. This leaves the enterprise with no real estate asset to provide as security for a working capital loan, which is essential for the smooth and successful operation of the enterprise. The only assets available to them are movable ones. With appropriate reforms, bank in Bangladesh could adopt the necessary practices for lending to SMEs against these moveable assets.

The authors are respectively Senior Policy Advisor and Legal Consultant, JOBS. This article is based on a presentation made at the JOBS-FBCCI Seminar on "Policy Issues Relating to Small and Medium Enterprise (SME) in Bangladesh" held on October 8, 1998 which was based on the research conducted by JOBS, particularly Patrick Meagther's report on "Secured Finance For SMEs in Bangladesh."

(To be continued)