The emergence of a new era in Bangladesh

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The SME ecosystem in Bangladesh is evolving. The interest of the government and regulatory bodies here is also laudable. With establishment of the SME Foundation and incorporation of the SME credit policy and programmes by Bangladesh Bank, a new era has been envisioned.

The sheer interest and far sightedness of all is leading the sector of 'Small and Medium Enterprises' to emerge and the Bangladesh economy to reach a level of dignity.

Amid regulatory conditions prevailing in the marketplace, there is the central notion of fixing of the rates on savings and loans in a free market dynamic. As a result, financial institutions must now focus growth on small and medium portfolios, the likes of which include SME entrepreneurship and medium industry financing.

It is true to say that banks can only have limited exposure of their total asset portfolio in SME lending specifics and in face of high inflation rates, the focus on such exposure must now trends upwards to fill the shortfall in economic growth. It may be wise to now diversify these growth engines that can provide a multiplier effect to the lower echelons of the social fabric.

The government announced a bail-out plan to highlighted sectors that had positive repercussions in the rehabilitation of thrust sector economies. This commendable and unique opportunity afforded by the present government sets the standards of farsightedness in the fast paced economy

Considering a genetic view, banks, instead of specialising, should now diversify into all feasible sectors of SME to retrieve routine revenue and to form better buffer against the risks of only lending to corporate enterprises and overlooking the rest. Indeed, one may very rightly argue that in times of a credit crunch, the risk-reward relation is steeper on individual portfolios, which yields beyond corporate exposure so as to justify the added risk, and it may not be wise to bound financial institutions in the growth of this high yielding sector.

The success of microfinance for a number of decades has paved the way for more formalised SME lending in Bangladesh. Considering the impact of the upward mobility of our society, we need to urgently consider restructuring the growth of the SME borrowers who have the habit of making regular repayments with a minimum load on non-performing-assets on the bank's balance sheet.

SMEs make up 75 percent of the domestic economy. There are about 60 lakh SMEs and micro enterprises in Bangladesh, according to Asian Development Bank (ADB).

SME FOUNDATION

Banks and other financial institutions are increasingly interested in financing small and medium businesses, thanks to the government's special attention to the sector. Finance Minister AMA Muhith yesterday handed over a cheque to an SME entrepreneur at the 'SME Entrepreneurs and Bankers Conference' in Sylhet.

On a recent survey, it proves that the sector now contributes up to 25 percent to gross domestic product and accounts for about 40 percent of manufacturing output, 80 percent of industrial jobs and nearly 25 percent of the total labour force.

At this juncture, banks should identify risk/performance related investment avenues in the corporate arena, while justifying the reinvigoration of SME at a larger scale. However, to mitigate risks and synergise maximum low risk-return, this should become a new arena against riskier single borrowings by corporate houses.

In recent times and especially in the context of developing countries, the SME sector remains labour intensive as it is the largest sector in terms of employment generation and low capital based, thus encouraging individual entrepreneurs to invest, mainly in manufacturing products that appeal to the general public but are also significant contributors to backward linkage to heavy industries.

However, among the many compelling reasons why SMEs fail to realise their full potential and why banks and similar financial institutions are at times reluctant to extend lending to SMEs, one reason is that inadequate finance is prominent in most cases. To eradicate such effects, the government and central bank has already stipulated specific targets and guidelines set forth in different forms to intensify the rationales in this field.

The survey based on regular operational modes, suggest that the challenges from the SMEs perspective are:

a. Access to finance related constraints are high interest rate on bank loans, lack of institutional credit, non-availability of working capital, low levels of technology adoption, lack of adequate investments etc.

b. Operation related challenges are low levels of productivity, lack of skilled technicians and workers, lack of research and development facilities.

c. Institutional lack of marketing facilities and market access, absence of clear-cut government policies, inadequate infrastructure.

The resulting market gap demands that SMEs in Bangladesh get rated by an experienced and competent SME rating agency, which can deliver detailed credit reports with scoring/rating, research assistance on SME cluster, training and overall sectoral studies.

In the US, rating agencies have setup a 'loan monitoring system' for the US Small Business Administration (SBA), the official US government agency for the small businesses, in order to allow the agency to better measure and manage risks in its small business loan portfolios.

In Singapore, the SME Credit Bureau was established (2005) as a collaborative effort between Dun & Bradstreet (Singapore) Pte Ltd and the Association of Small and Medium Enterprise (ASME).

In India, the SME Rating Agency (SMERA) was adjudged the best SME Development Project in Asia-Pacific Region in 2008 by ADFIAP.

In order to play a key role in further strengthening the SME ecosystem in Bangladesh, the government and its undertakings, the banking and financial fraternity, the apex associations of the SMEs and the SME units themselves must appreciate and recognise the importance of this initiative.

Setting milestones via the avenues of electronic banking the retail portfolio of the new banking horizon has almost reached every household. However, banks are yet to capitalise on the dimension of opportunities that wait among all the consumers of the country as a whole.

Banking has now graduated to new levels due to some low cost overheads including the added convenience/value to customers over the last decade.

The recent upturn in profit declarations by well to do banks in the international arena has shed light on the future of the financial industry. It is more than likely, with the inherent lag in consideration, that more orders will be processed in the coming year, leading to a refined and balanced savings and loans situation. We hope the country can fare better in the New World Order soon to be in effect after this lean period.

In the upturn of events, dreams of one may turn into reality, and new job seekers en-mass may find regular opportunities to be gainfully employed and break through the system of unemployment.

Also sometime ago, the government announced a bail-out plan to highlighted sectors that had positive repercussions in the rehabilitation of thrust sector economies. This commendable and unique opportunity afforded by the present government sets the standards of farsightedness in the fast paced economy.

These efforts are clearly reconciled with the standards of a true global player.

Bangladesh Bank has also shown its fastidious prowess in strict regulation, taking a cautious and calculated approach, especially regarding the drain of foreign currency in these trying times.

We all should carry an open mind to accommodate the set of changes to relate to the potential avenues of economical growth streams in a fashion of flexibility and with a tone of corporate governance in the emerging new world. The speculations of a recession shall line scars on the economy, and we must adopt diversity to prevail in our thoughts, discipline and practice.

The writer is the chief executive officer of Dun & Bradstreet Rating Agency Bangladesh Ltd.

Laos swamped by foreign investment

AFP, *Boten, Laos*

The language is Chinese, change is given in yuan and the time is set for Beijing -- but the Boten casino is in Laos, not China.

This impoverished country is overrun by investments from the more powerful neighbours that surround it, and is struggling to impose a development strategy.

The casino and garishly-coloured hotels have been developed in Boten over the past five years, against a backdrop of mountains a stone's throw from the Chinese border.

Laotians are not welcome in this Chinese-controlled new town, which is far from the only example of China's widespread presence in this landlocked communist country of about six million people.

The Chinese projects are on a large scale -- mines, dams, a high-speed rail project, agricultural concessions -- and have led to concerns in the small nation.

"The Chinese presence is on everyone's lips. It's a subject which Laotians have started to talk about increasingly overtly and more critically," said a Laos-based foreign expert.

China, and also Vietnam and Thailand, "use Laos as an extension of their territory", agreed Dominique Van der Borght, of Oxfam Belgium in the Laotian capital Vientiane.

Long reliant on foreign aid, Laos is now the subject of massive foreign investment.

According to official figures, the inflows rose from $51 million in 2001 to $13.6 billion last year, led by the three neighbouring countries with more than $8 billion in 2010.

Those figures can only rise further with the announcement of new projects including the country's first full-length railway, from Boten to Vientiane.

Construction of the $7 billion line, largely financed by Chinese firms, has not yet begun but plans call for completion by 2015.

At first glance Laos, one of the world's poorest nations, should welcome this investment.

But Rio Pals, coordinator of INGO Network which groups more than 70 humanitarian organisations in Laos, expressed concern about the government's ability to properly manage the huge influx of money.

"They don't have the capacity at this moment to check at the door whether it is quality investment," she said.

Laos officially grew at 7.9 percent between 2006 and 2010, an expansion largely founded on exploitation of natural resources in the country, which has no industrial output.

"Forests, agricultural land, water and hydropower potential, and mineral resources comprise more than half the country's total wealth," says a World Bank report.

Care must be taken "not to saw off the branch on which Laos sits," says the foreign expert.

Laos is a rural-based society and some experts fear that its people, who depend on the country's forests and waters for sustenance, are paying for their country's growth model.

Pals says the country's goal of advancing from least-developed nation status by 2020 might be affected unless there is a system to ensure good-quality investments that benefit the entire population.

Some analysts, though, say the 2020 target seems reachable. At its five-yearly congress in March the ruling

AFP

Chinese shopkeepers playing mahjong in the border town of Boten, a special economic zone land hired by China, in the north-ern province of Luang Namtha, Laos.

Still dependent on foreign development aid, Laos is benefiting from massive investments from its Vietnamese and Chinese neighbours

communist party confirmed this aim of escaping the ranks of the world's 48 poorest countries.

"The bet is not impossible to win" given recent economic growth rates, said Vatthana Pholsena, of Irasec (Research Institute on Contemporary Southeast Asia), in Singapore. "But the question is not only a matter of accumulating wealth. It has to be equitably distributed."

The World Bank encourages Laos to rely on its resources, but prudently.

"With appropriate macroeconomic and governance priorities, Laos' natural resource wealth can contribute to rapid, sustainable growth and poverty reduction," the bank said in its latest report on the country.

The authorities need to find a way to control investments without closing doors to them. They also need to accept that rapid growth will bring unavoidable changes to society.

While some foreign aid workers romanticise traditional mountain village life in northern Laos, rural people themselves want to see change, says Adrian Schuhbeck, of the German development agency.

"Preservation of traditions should be promoted but not at the cost of a reasonable access to modern goods for communities in cold mountain areas," he said.

"Polyester blankets coming from China can really improve their life although these are not part of their traditional lifestyle."