Asia 2050 and Bangladesh

Asian Development Bank has recently identified seven Asian countries as heart of the region's re-emergence by 2050. Bangladesh Bank Governor Atiur Rahman presented a paper on the international organisation's 44th annual meeting in Hanoi, Vietnam. Following is the first part of his paper

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Asian Development Bank in its report titled "Asia 2050: Realizing the Asian Century" identifies seven Asian economies as engines of Asia's re-emergence by 2050. The countries are: China, India, Indonesia, Japan, Republic of Korea, Malaysia and Thailand.

The report said Asia could emerge as the dominant engine of global growth by 2050, accounting for more than half of the world's gross domestic product (GDP), with the 'Asia 7' leading Asian growth. By then, the 'Asia 7' will comprise around 45 percent of world GDP from the current level of 22 percent. 'Asia 7' now comprises 78 percent of Asian population that is projected to decline to 73 percent by 2050. Rapid improvement in technology and factor productivity, major share of world's added capital stock, and revolution in communication will be the major drivers for Asia.

Asia is projected to emerge as the biggest stakeholder in the global commons, including an open trading system, a stable financial system, and international rule of law. Ensuring inclusive economic growth, ability to avoid the middle income trap, innovation, promotion and nurturing of new technologies, improved governance and institutional capacity, and regional cooperation are seen as the major challenges in realising the vision of this Asian century.

I tried to give a big picture of Bangladesh's growth story, and shared the dream of a nation, which earned its independence with a great sacrifice in 1971. Many pundits thought Bangladesh was a 'test case' of development and were sceptical about her very survival. Yet, Bangladesh surged ahead and today it is a 'success story' that may perhaps be difficult to comprehend by many. Not surprisingly, Bangladesh is not in the list of those countries, which will be the members of Asian powerhouse.

WHERE THEN IS BANGLADESH?

Despite steady growth and improved performance in economic and social indicators over the past two decades, Bangladesh has not been included in the 'Asia 7'. However, growth prospects of Bangladesh figure prominently in a number of past and recent projections of other sources e.g. next 11 emerging economies after BRICs by Goldman Sachs, among 11 Global Growth Generators (3G) by Citigroup. Bangladesh economy has maintained resilient, stable growth in the face of repeated internal and external shocks, providing markets and entrepreneurs a predictable policy environment of low uncertainty.

Since liberation in 1971, nominal GDP in USD has increased more than eighteenfold while the population has increased a little over twofold. Unlike many developing nations, Bangladesh's private sector is the overwhelming driver of growth accounting for nearly 90 percent of economic activities. Bangladesh has ample supply of competitive low cost labour with a large working age population pool. Fiscal and monetary policies of the country have consistently maintained cautious, prudent stance. Fiscal deficits in recent years have remained below 4 percent of GDP. The economy has been on strong growth rebound in fiscal year 2011 following a brief spell of slowdown in the global downturn. Excellent agricultural output performance, above 40 percent year-on-year growth in exports and imports (with only about one-seventh of imports comprising food and consumer goods, the rest being production inputs and capital goods) are indicative of vigorous growth push in both the manufacturing and services sectors. Given these visible realities ignored by some growth pessimists, including a think-tank, an ex-finance adviser and an ex-governor, real GDP growth in FY 11 looks more likely to exceed 6.66 percent than to fall short of this. It would not be surprising to see the final FY 11 growth estimate touching 7 percent, with vibrancy of the growth spurt manifest in record high growth of external trade that is projected to be well over $50 billion in full the full financial year. Growth pessimists point out that investment as GDP percentage has not risen much, but for the last few years Bangladesh economy is growing more from increasing productivity of non-financial factors of production than from incremental financial investments.

Literate and better-educated manpower is using upgraded production techniques and practices in agriculture and manufacturing. Urban migration and increasing female labour force participation have improved labour productivity in urban and rural economy, promoting overall total factor productivity.

Transition of Bangladesh to a significantly higher growth path has clearly been remarked in Moody's sovereign credit rating on Bangladesh for 2011. The growth rate is projected to accelerate over the medium term to 8 percent by FY 15. The long term growth projection for the period of 2010-50 for Bangladesh by Citi research is equally robust, anticipating sustained 7.5 percent growth per annum during this period given Bangladesh's growth potentials underpinned by favourable demographics and determination to go digital. Per capita gross national income is likely to reach middle-income group threshold ($996 at 2009 prices) by FY 13. Near term risks to these projections include the emerging balance of payments pressure, higher inflation, weakness in FDI inflows, and weak implementation of foreign aided projects. Of course, both the central bank and the government of Bangladesh have been making focused policy interventions to overcome these risks.

STEADY TRENDS OF SOCIOECONOMIC GROWTH

According to the World Bank and World Trade Organisation rankings, Bangladesh was the 21st fastest GDP growth country in 2010, seventh largest remittance recipient country, 70th largest exporter and 68th largest importer. A survey conducted in 2010 ranked Dhaka seventh among top 10 global destinations for online work. Bangladesh has also received a number of international accolades: "One of the frontier five markets" (JP Morgan Chase), "Next 11 emerging economies after BRICs" (Goldman Sachs), "One of the potential growth economies" (PricewaterhouseCoopers). Besides, with declining poverty, improved food security, favourable demographics, and recent efforts to enhance infrastructure, Bangladesh has received positive sovereign credit ratings from Standard and Poor's (BB-) and Moody's (Ba3) in 2010 and 2011 with stable outlook.

Bangladesh economy was mildly impacted in the recent global financial crisis. With limited, regulated external exposure, the financial sector remained healthy and liquid during the global crisis, supporting the affected export and other real sectors. Strong rebound in external trade, above 40 percent growth in exports and imports thus far in FY 11 (up to April), has followed a brief spell of slowdown, during which domestic consumption was upheld effectively by microfinance, remittance inflows and fiscal safety net for the poor. Apparels exports with 42.34 percent growth in FY 11 upto April have bounced back strongly with low labour costs retaining competitive edge even after the recent wage hike. In the post-crisis surge, exports to new markets in fast growing Asian economies and exports of newer items like marine vessels and IT are gaining momentum. High export growth has been accompanied by high growth in import of capital and intermediate goods for manufacturing sector and also food items. This higher growth momentum in external trade has exerted strong growth push in manufacturing and service sectors. Agricultural output remains buoyant, supported by timely access to inputs and financing. Near self-sufficiency in food grain output (rice production meeting 96 percent of domestic needs) limits the stresses to food security from global shortages and price spikes.

TO BE CONTINUED

AFP

An Indian farm worker heaps paddy on a rice field at Matigara village area in the outskirts of Siliguri.

Good governance to boost microfinance

CONTINUED FROM YESTERDAY

Long run sustainability of MFIs and continuation of financial services are keys to the development of microfinance sector in Bangladesh

They are the regulated MFIs under the ASFI. In addition, development finance institutions (DFIs) are either non-profit entities or financial NGOs providing microcredit services. These DFIs may start operation with operating licences under the ASFI.

The MFIs in these countries are subject to both prudential and non-prudential regulations. Therefore, internal monitoring, financing of MFIs, use of resources, capital adequacy, capital requirements are areas of regulation and supervision of the regulatory agencies.

One of the critical issues that had confronted us is the ownership and governance of MFIs. In other countries, it has been more equity based with ownership of different stakeholders. Capital requirement has been at the forefront of licensing mechanism. Bangladesh is yet to take a position on the ownership and governance structure of MFIs.

Several articles in the anthology have focused on the issue of ownership and governance. The article of Professor MM Akash requires special attention as it is focused on the issue of ownership and governance of MFIs in Bangladesh. He has delved into the issue with several case studies. He used the framework of political economy. Within the framework, the professor has raised some critical questions. What should be the ownership structure? Should it be member owned or cooperative or equity based? Based on the case studies, he has rightly demonstrated that clients' interest might be jeopardised if socially oriented ownership structure is not developed. In defining ownership structure, MRA should have a vision about future role and emergence of MFIs given the fact that MFIs are part of the formal financial system.

Long run sustainability of MFIs and continuation of financial services are keys to the development of microfinance sector in Bangladesh. Resource mobilisation and operational efficiency are the critical elements. The paper of Professor Salahuddin Ahmed Khan and his co-authors has focused on these two issues. The paper of Lila Rashid on "Microfinance Regulations in Bangladesh" has also addressed these two critical issues. MFIs have two major sources of finance -- member savings and borrowings from Palli Karma Sahayak Foundation or banks. Over time, the contribution of member savings is growing. Although in recent years, borrowing from banks has been increasing but these loans are quite costly. It will make sustainability of these institutions difficult. Lila Rashid in her paper has essentially shown that effective lending interest rate is very high given all types of deductions. Both the papers have shown that MFIs in Bangladesh have higher scope of becoming more cost efficient. Regulation will perhaps contribute to such efficiency.

Finally, the remarks of the distinguished panelists at the three-day conferences were included in part five of the book. They had raised some major policy issues in their discussion. They are: (i) high interest rate, (ii) governance structure, (iii) financing of MFIs; (iv) rate of returns on economic activities financed by MFIs, (v) diversification in financial services, and (vi) effectiveness of regulation. Some of the papers have discussed these issues. The MFIs in Bangladesh not only provide financial services to the poor who were left out by commercial banks, but they are the formal part of the financial system. This has to be recognised. They can reach out the borrowers at any level. Formal banks are unable to provide financial services to all segments of the society. It is a hard reality. MFIs, therefore, have also to be developed as formal financial institutions at different levels. This is where MRA has to play a critical role. MRA should find an optimal strategy where both welfare role of the MFIs and the sustainability of the institutions maintain equilibrium.

In Bangladesh, regulation of MFIs is at the early stage. This is a country where the group based 'microfinance' has evolved. But in the arena of regulation, Bangladesh is way behind others. This is where we lacked vision. The experiences as documented in the anthology will indeed provide a guideline in setting prudential and non-prudential regulations. The experiences in the area of regulation across the globe are enormous. In most countries, MFIs are regulated by the central bank with multiple level of licensing. There are reasons. The most important argument is the stability of financial system. MFIs are financial institutions. In Bangladesh, we have a separate regulatory agency. MRA was established as a separate entity because of diversified nature of large number of MFIs. But they should use both prudential and non-prudential regulations to ensure sound development of the microfinance sector and MFIs in Bangladesh. Thanks to MRA that they could bring together the experts to a three-day international conference that culminate into this anthology.

The articles in the book essentially document the regulatory experiences of eight different countries. Three articles are focused on the experience of Bangladesh. All the articles are descriptive in nature, and do not establish any causality between regulation and development. However, they are written in a very simple language and easy to read and understand.

I view the book as extremely useful. It should be a must-read book for the professionals, students, regulators, policymakers and researchers interested in microfinance and financial markets.