

Private sector external financing is a catalyst for growth

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THE government of Bangladesh initiated the Perspective Plan (Vision 2021) and Sixth Five Year Plan with ambitious GDP growth targets, rising from around 6 percent in 2010 to 8 percent in 2015, and further to 10 percent of GDP by 2021. This is predicated upon a substantial increase in investment rate, rising from 24 percent of GDP to 32 percent by 2015 and to 36-38 percent of GDP by 2021. To finance such a large increase in investment, the Sixth Plan and beyond realistically projects a significant increase in national and foreign saving, the latter based on both higher public and private foreign borrowings as well as foreign direct investment. In the event, implementation of the Sixth Plan so far shows significant shortfalls in both the GDP growth and investment targets. The major reasons for this shortfall are very high domestic interest rates and limited access to foreign financing in the absence of a proper foreign borrowing strategy.

In a rapidly growing and capital hungry emerging market like Bangladesh, that needs major investment in both export earning sectors and infrastructure, it makes sense to increase foreign currency borrowing that will enhance both economic growth potential as well as the ability to generate future overseas earnings and thereby avoid future debt servicing payments problem.

Evidence suggests that there are major opportunities for tapping this source of funds to promote Bangladesh development. With the growing fiscal and other financial difficulties in major donor countries, the nature of global development financing options is changing rapidly. Private sources of development financing in the form of FDI, portfolio investment, bonds and commercial loans have become the major players. Even in 2001 the financing support from official creditors to developing coun-

tries was only 14 percent of all net capital inflows. Private financing accounted for 86 percent.

Within private sector, FDI inflows accounted for 76 percent and the remaining 10 percent came from private borrowings. After ten years in 2011 the contribution of official assistance slumped further to a mere 3 percent. Some 97 percent of all net capital flows came from private sector. FDI remained dominant with 58 percent share; portfolio net inflows vanished owing to the global financial crisis; but most interestingly, private foreign loans surged to 39 percent of total net financing inflows.

Several points are worth noting. First, private financing is competitive and driven by commercial profitability considerations. As such, they are far more flexible in volume and the timing of availability. By mostly staying away from these forms of financing, the Bangladesh development financing options are very limited and at times unnecessarily conservative. Second, there are various forms of private financing. FDI and private commercial loans (including bonds) are stable and have grown substantially even with the global financial crisis. The only unstable component is portfolio investment.

So, the excessive fear of destabilisation of the balance of payments, as happened during the East Asian crisis of 1997-99 or during the global financial crisis of 2008-10, is not a strategic factor. Third, a review of the international experience suggests that most countries that have relied on this financing have benefited in terms of higher GDP growth, investment, exports and employment. At the same time they have managed to maintain macroeconomic stability including the stability of the balance of payments. Two important examples are China and India.

One major concern that the central banks have in allowing greater access to foreign financing is whether the external balance of payments situa-

tion is sufficiently robust to allow it. One positive aspect of recent trends in the Bangladesh economy has been the improvement in the trade picture with stronger exports and reduced imports, along with the continued strong growth in remittances. This had led to the external current account moving into surplus and buildup of foreign exchange reserves above the \$15 billion level. This is equivalent to more than five months of import cover and the reserve accumulation is still growing.

also makes sense to allow larger Bangladeshi corporates to borrow in international bond markets. The sovereign issue will be the new reference or benchmark for other borrowers to access the dollar and other foreign currency corporate bond markets.

The reason to add the option of international bond issuance to bank borrowing is that 1) It increases the potential financing opportunity/capacity for Bangladeshi companies giving them access to institutional money managers and bond

rates) and lending rates for prime borrowers.

There are a number of valuable lessons from the Indian experience on foreign currency financing via loans and bonds, what they term "external commercial borrowings". Indeed the liberalisation of the European Central Bank since 1997 has been accompanied by a continued growth in both forex reserves and capital inflows so allowing greater foreign borrowing that resulted in greater forex reserves contrary to some pessimistic forecasts.

good time to rethink the proper external financing strategy and provide a broad policy framework to facilitate private foreign borrowing of well managed and reputed domestic firms.

In conclusion, the combination of domestic financing capacity constraints and encouraging growth in foreign exchange reserves validates the decision by Bangladesh Bank to accelerate the approvals of foreign currency bank borrowing. In a rapidly growing and capital hungry emerging economy like Bangladesh, that needs major investment in both export earning sectors and infrastructure, it makes sense to increase foreign currency borrowing that will enhance both economic growth potential as well as the ability to generate future overseas earnings and hence forex reserves.

Foreign currency borrowing approvals have reached around \$1.6 billion and we believe it is sensible to continue to sanction further loan approvals in sectors that have the potential to increase exports as well as infrastructure, both traditional energy and transportation, as well as technology critical enablers such as telecoms.

We strongly believe the time is right to accelerate foreign financing on a selective basis for critical export and infrastructure sectors to reduce crowding out in the domestic financial system and to take advantage of the greater interest and enthusiasm of global lenders and institutional investors to finance Bangladeshi companies. Such a policy would also enhance efficiency and competition in the domestic banking system. An effective and well executed strategy by the government of Bangladesh in facilitating this will, we believe, play an important role in underpinning the next phase of growth and achieving the targets laid out in the Perspective Plan.

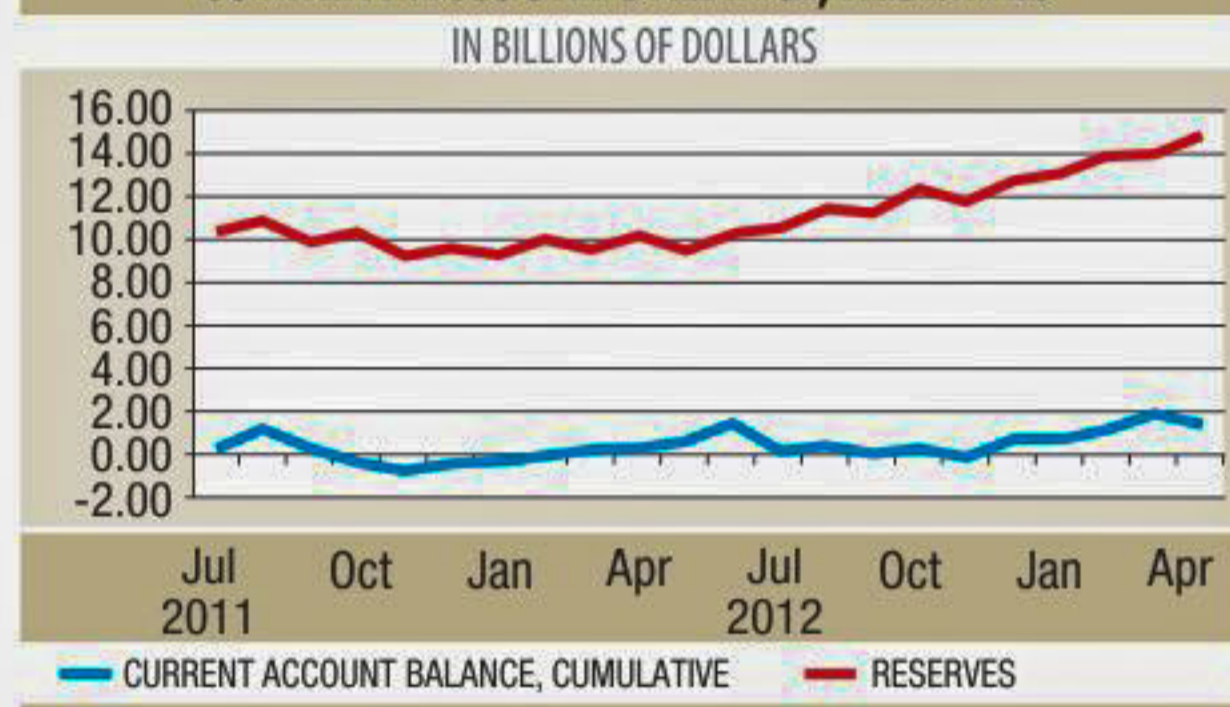
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NET CAPITAL FLOWS TO DEVELOPING COUNTRIES

| In billions of dollars | 2001 (Volume) | 2001 (Percent) | 2011 (Volume) | 2011 (Percent) |
|-------------------------|---------------|----------------|---------------|----------------|
| Net Total Capital Flows | 216.9 | 100 | 1,106.8 | 100 |
| Percent of GNI | 3.8 | -- | 4.9 | -- |
| Net Equity Inflows | 165.7 | 76 | 642.2 | 58 |
| Net FDI | 159.0 | 73 | 644.4 | 58 |
| Net Portfolio | 6.7 | 03 | -2.2 | 0 |
| Net Debt Flows | 51.2 | 24 | 464.6 | 42 |
| Official Creditors | 30.9 | 14 | 30.0 | 03 |
| Private Creditors | 20.3 | 10 | 434.6 | 39 |

SOURCE: WORLD BANK, INTERNATIONAL DEBT STATISTICS 2013

CURRENT ACCOUNT BALANCE, RESERVES



INDIA EXTERNAL DEBT BY BORROWER

| CATEGORY | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011PR | 2012QE |
|---------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|
| NON-GOVT DEBT (LONG TERM) | 52,523 | 56,633 | 62,541 | 69,741 | 73,456 | 95,196 | 121,214 | 126,254 | 143,057 | 165,711 | 191,852 |
| FINANCIAL SECTOR | 32,367 | 37,032 | 40,575 | 43,455 | 42,334 | 48,414 | 51,138 | 48,617 | 55,933 | 62,818 | 70,241 |
| PUBLIC SECTOR | 8,225 | 7,518 | 7,685 | 6,496 | 6,671 | 7,978 | 11,040 | 12,599 | 13,749 | 16,035 | 19,085 |
| PRIVATE SECTOR | 11,931 | 12,083 | 14,281 | 19,790 | 24,451 | 38,804 | 59,036 | 65,038 | 73,375 | 86,858 | 102,526 |

Foreign borrowing by corporate houses incorporated in Bangladesh has been a history mainly from the multilateral organisations, not private sector credit. As per the public information, the total amount of private sector debt outstanding as of June 2012 is \$1,603.97 million, which is an increase of 1.2 percent from the previous figure of \$1,584.50 million as of June 2011.

But with the government also set to launch a sovereign bond issue, most likely within the next 12 months, it

funds; 2) During periods of banking sector stress and risk aversion, it gives companies an alternative means of financing; 3) External borrowing by corporate would allow them to borrow at cheaper rates from the international capital market while taking the exchange risk on themselves; and 4) Such borrowing by large domestic corporations would also help create pressures on the domestic banks to become more competitive and work for reducing the spreads (the difference between the lending and deposit

The important policy consideration here is that the overall external borrowing strategy including private foreign borrowing must be prudent and the overall macroeconomic management must be sound. Countries that have faced crisis in the balance of payments did not meet these two criteria. By and large, Bangladesh scores well on average on both these criteria.

Importantly, Bangladesh's debt servicing capacity reflected in terms of export and remittance earnings has been doing quite well. So, now is a

AirAsia chief executive outlines India growth plans

AFP, Mumbai

AIRASIA'S largest budget carrier AirAsia outlined plans on Monday to aggressively grow its Indian joint venture, including by adding 10 planes a year and focusing on flying new routes.

AirAsia chief executive Tony Fernandes said more than 50 staff, including pilots and engineers, have been recruited for the new no-frills airline, which plans to start operations in India later this year.

Fernandes said the new airline plans to add 10 Airbus A320s a year to its fleet, which will focus on routes in southern India, rather than Mumbai and New Delhi, before expanding elsewhere in the country.

"India's aviation has not grown. There are lots of routes which have not been done and lots of airports have been under-utilised," Fernandes told reporters in Mumbai. "We will give the lowest possible fares," he added.

Banks' profits fall

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Imports in the July-April period fell by 5.63 percent compared to the same period a year ago.

GDP (gross domestic product) growth was more than 6 percent, while remittance inflow and export growth were also good, said Helal Ahmed Chowdhury, managing director of Pubali Bank.

Chowdhury also said many banks have not been paying for inland bill purchases (IBP), resulting in a rise in default loans. Many genuine customers' loans were being classified as other banks did not make IBP payments.

Non-performing loans, resulting in higher provisioning, and tight provisioning rules are the main reasons behind the decline both in their operating and net profit, bankers said.

The impact of loan defaults, which shot up last year following a series of banking scams, continued this year too, the bankers said.

According to BB statistics, classified loans were 11.90 percent compared to total outstanding loans in March this year, which was 10.03 percent in December last year.

The Pubali Bank MD said the central bank has increased monitoring to improve the health of the banks and has been monitoring loan portfolio more closely. This is also a cause for the fall in the banks' profit.

An official of NCC Bank said the rate of interest on credit fell as the liquidity in the banks has gone up. On the other hand, the banks' interest rate on deposit could not be lowered much, which has also brought down their profit.

Khandker Ibrahim Khaled, a former deputy governor of the BB, said the new loan provisioning rules and "bad quality of loans" caused a fall in their profit.

Siemens draws line under joint venture with NSN

AFP, Berlin

GERMAN engineering giant Siemens drew a line under its joint venture with Finnish telecom equipment maker Nokia on Monday, selling its 50-percent stake in Nokia Siemens Networks for 1.7 billion euros (\$2.2 billion).

Nokia shares, which have fallen sharply reflecting a decline of Nokia's on-dominant position in making mobile phones, jumped 7.24 percent on the news.

On the Frankfurt stock exchange, Siemens' shares were the biggest gainers, adding 1.88 percent in a generally softer market.

Once the deal was concluded in the third quarter of 2013, "Nokia Siemens Networks will become a wholly owned subsidiary of Nokia", both companies said in a statement.

Siemens' decision to sell its stake comes as part of a strategic repositioning in the market: Siemens announced in June it would shut down its loss-making solar energy unit after failing to find a buyer.

The NSN deal will allow Nokia, which has been subject to speculation it could be up for sale, to take full control of its most profitable business.

Once the star performer on the Helsinki



A general view of Nokia Siemens Networks in Espoo, Finland.

stock exchange, Nokia has seen its market value has plunge 30 percent in the past two years.

The firm reported a net loss in seven of the past eight quarters amid fierce compe-

dition from Apple's high-end iPhone and Samsung's Galaxy.

The NSN joint venture, which specialises in high-speed mobile broadband, was set up in 2007 and the partnership agree-

ment expired in April.

Nokia said NSN would retain its headquarters in Espoo, Finland and press on with its restructuring plan, which includes the closure of 16 sites in Germany, shedding 1,000 jobs.

The buy-out will see Siemens receiving 1.2 billion euros in cash at the closing of the transaction, the statement added. The remaining 500 million euros will be paid through a secured loan from Siemens due one year from closing.

Nokia said it had obtained bank financing for the cash portion. DZ Bank analyst jasko Terzic saw the price as a "fair" one.

At one time, the two partners had mulled floating NSN on the stock exchange and since then Siemens has not made any secret of plans to pull out of the joint venture.

The expiry of a shareholder pact in April cleared the way for Siemens to press ahead.

A number of different scenarios have been speculated in the media, including the possible sale of Siemens' stake to Alcatel-Lucent of France or to an investment fund.

Analys analyst Ari Hakkarainen saw the move as a way for Nokia to "get back to their starting point in 2007 when Nokia was still the biggest mobile phone company in the world."

Asia increasingly vulnerable to financial turmoil, natural disasters

STAR BUSINESS DESK

ASIA'S resilience to shocks is being tested again by the turmoil in the world's financial markets and a particularly destructive start to the monsoon, the Asian Development Bank said in a report yesterday.

Both threaten to worsen the impact on the region of prolonged weakness in the global economy, according to the ADB's Annual Evaluation Review.

The report highlights the growing risks and vulnerabilities that endanger the region's hard-won socio-economic gains and success in reducing poverty.

"Asia leads the world in the pace of growth, but governments need to be more conscious of the risks facing the region from economic, social, and environmental factors," said Vinod Thomas, director general of Independent Evaluation at ADB.

"Emerging vulnerabilities point to a

longer road than previously expected in eradicating extreme poverty in the region unless action is stepped up," he said.

Tackling them will require greater effort by governments and development agencies to provide effective early warnings of impending economic and financial shocks and adequate social safety nets in a region with among the world's lowest levels of public expenditure on social protection, the report said.

The other main source of vulnerability is from a marked increase in floods, storms, and drought worldwide, but especially in Asia and the Pacific. This will require governments to ramp up disaster preparedness.

"A big worry is that the uncertain outlook seems to be sapping the commitment of governments to finding novel solutions," said the report's main author Walter Kolkm, director, Independent Evaluation. "But the vulnerabilities need to be confronted because they will deflate economic growth while hitting the poor hardest."

A tale of T-shirts

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Ali, who didn't source any of the T-shirts, estimated that the Primark shirt cost \$1.60 to produce, the Hilfiger shirt \$5 and the G-Star Raw pocket tee \$6 or a shade more. Primark and G-Star declined to comment on their production costs. Hilfiger didn't respond to requests for comment.

In Bangladesh, high-end labels often end up paying the factory a fraction more for their order than mass-market retailers because they order fewer items. The factories prefer the larger orders, because it makes their production schedules more predictable.

Fakir charges H&M about 20 percent less for a basic T-shirt with no pocket or special finish than an equivalent G-Star Raw product. "That is mostly due to volume," says Fakir Nafizuzzaman, the factory's director.

It isn't just designer T-shirts made in Bangladesh. Shipping records show Ralph Lauren sources a variety of clothes from there, including polo shirts, lamb's wool sweaters, \$35 neon skinny jeans for girls and a \$110 quilted child's jacket. Ralph Lauren declined to comment.

Hugo Boss AG said it began sourcing T-shirts and bodywear in the country a year

ago because it was facing capacity constraints in its European factories. The German fashion house said it doesn't derive a cost benefit yet because it is investing in its relationships with four factories.

Fakir, which makes 130,000 T-shirts a day in its Narayanganj factory, is moving away from basic T-shirts for H&M to clients like G-Star Raw because it has improved its ability to do better trims and finishes. There is less competition at the higher end, says Ahmed. However, G-Star said it hasn't placed an order at Fakir since last year.

Factory owners in Bangladesh say their profit margins tend to be the same, regardless of the customer. Ahmed says Fakir's profit margin doesn't top 2.5 percent. "Customers are always pushing down costs," he says.

For the seamstress making the T-shirt, wages depend on her skill, and have nothing to do with whether she is sewing a designer or discount label.

A top sewing machine operator may get \$100 a month, not counting overtime, while a worker one grade below may earn around \$80, says Fernandez -- about enough to buy one of the high-end designer Ts.