BRAC Bank puts small entrepreneurs in focus

The SME-aligned bank celebrates 12th anniversary today

SUMAN SAHA

BRAC Bank aims to focus more on small loans as it plans to double its disbursement in the next five years, the bank's managing director said.

It now disburses around Tk 4,000 crore on average to small and medium enterprises a year; it aims to increase the amount to Tk 8,000 crore in 2017, Syed Mahbubur Rahman said in an interview on Tuesday.

"The country has around 50-60 SME entrepreneurs. So there are huge prospects for such loans. We have to just tap the opportunity."

BRAC Bank will achieve the target by going closer to the customers by opening more SME outlets in rural areas, he said, as his bank celebrates 12 years of operations today.

"We follow the 'supervise credit model' in giving out loans to the small entrepreneurs. Customers no longer need to come to the bank. The bank goes to their doorsteps," Rahman said.

The bank that has 400 SME unit offices across Bangladesh plans to open 30 more this year.

"We do not take collateral from small entrepreneurs," said Rahman. "A customer does not need to pay any collateral for up to Tk 10 lakh."

Banks and non-bank financial institutions lend around Tk 70,000 crore to SMEs a year, with an annual growth rate of 25 percent, Rahman said.

The bank started off in 2000. From the first day, the bank focused on SMEs in a bid to ensure the small entrepreneurs' access to finance.

"Another reason to focus on SMEs is that around 15-16 lakh people enter the job market a year. If we do not generate jobs, the unemployment rate will go through the roof."

Small entrepreneurs create more employment; the SME sector now accommodates about 76 percent of the industrial labour force in Bangladesh, Rahman said.

Around 90 percent of the bank's SME portfolio goes to small entrepreneurs who borrow on average Tk 6-7 lakh each. The bank disbursed around Tk 3,500 crore in SME loans in 2012.

Previously, SMEs were not considered a bankable segment due to poor knowledge on it, Rahman said.

But now every bank is sanctioning SME loans, as they now believe that it is a bankable segment; even Bangladesh Bank has created a separate department for SMEs, he said.

"So our bank's success is that we have changed the mindset of the industry people as well as the regulator."

BRAC Bank disbursed SME loans to around 4.15 lakh people in the last 12 years, generating direct employment for around 16 lakh people.

The bank now charges an average of 16-18 percent as the interest rate for SME loans and the customer has to repay in monthly instalments.

The needs of the small entrepreneur differ from others, he said. "Convenience is an important issue for them. So the bank is working to meet their needs."

It takes 15-20 days to complete the loan approval process, said Rahman.

So, the bank has started a pilot project in Bogra and Comilla to make spot loan approvals, he added.

Limited market information is one of the challenges to further expanding SME loans and so the bank has conducted a survey to better understand the SME market.

Launching the mobile fund transfer service is one of the key achievements of the bank, Rahman said.

bKash Ltd, a subsidiary of BRAC Bank, operates with an objective to ensure access to a broader range of financial services for the people of Bangladesh.

It emphasises serving the low-income masses of the country to achieve broader financial inclusion by providing services that are convenient, affordable and reliable.

bKash acquired 55 lakh customers in the last 20 months, with the help of around 60,000 agents across Bangladesh. "It is a big lift for inclusive banking."

Rahman said the overall banking portfolio registered "de-growth" or insignificant growth in the last six months.

"Capital machinery imports have fallen significantly. It is not a good sign for the country, as the more the capital machinery imports, the more expansion; expansion means more employment. Overall, liquidity is now high in the market."

The banks loan deposit ratio has fallen significantly in recent months due to an anti-business environment, such as hartals, and global economic recession.

Rahman cited an example that his bank is lending Tk 79-80 against a deposit of Tk 100; it was Tk 85-Tk 95 a couple of years ago.

Syed Mahbubur Rahman

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GSP cut and its fallout

FAARIA TASIN

ALL eyes had been on the issue of generalised system of preferences (GSP) in Bangladesh, following the Rana Plaza tragedy in April. While the country has managed to cling to the GSP privileges provided by the European Union, it has not been lucky in the case of USA.

A petition for withdrawal of GSP was filed by the American Federation of Labour and Congress of Industrial Organisation (AFL-CIO) in 2007 when it called for improving worker rights.

Bangladesh had six years to be in accord with the needs of the US; however, the last straw came after the Rana Plaza building collapse and within two months of the incident, the trade waiver scheme was suspended.

Now there arrives a new line of thought sated with optimism that the suspension can actually act as a catalyst to improve labour rights and safety conditions of factories.

Undeniably this issue needs to be dealt with immediately starting foremost with the garment sector as this is a major lifeline to the economy and naturally attracts a lot of global attention in the face of an accident or mismanagement. But will suspension of the US GSP actually improve safety conditions in the crucial garments sector?

Putting things in perspective, the exportable products under the GSP coverage only accounted for 0.7 percent of the country's total exports to the US.

The US GSP scheme did not include the country's garment sector which possibly could have maximised the benefits of this facility in terms of fostering trade and industrialisation being the largest contributor to the export industry.

That being said, if there is an anticipation of improvement of working conditions in apparel factories which closely work with US buyers, then this is unlikely to materialise, as this sector was not covered by the US GSP scheme to begin with.

The pure verity of the cancellation is that this GSP facility acted more like a signal than a quantitative measure of trade promotion in Bangladesh. This kind of step can also influence the European Union to reconsider its current GSP programme for the country.

The EU's cancellation can be a devastating blow to the garment sector, as it will not only decrease export orders from the EU (thus reducing foreign exchange earnings), but will also directly affect much of the 3.5 million workers engaged in the garment sector.

In the case of such a situation, safety conditions are likely to deteriorate rather than improve, and wages to workers would not increase either. In addition, foreign investors may be discouraged to invest in the country as a result of the GSP suspension. In a country where economic growth largely hinges on investment, this can be a setback especially since FDI levels are already low.

As far as individual factory owners are concerned, improving worker rights and safety conditions in apparel factories translates into additional investments for them which does not bring about any marginal financial gain against their investments.

While it can be said that fear of GSP cancellation by the European Union can urge some factories to improve compliance however, it is unlikely that factory owners will take an inter-temporal decision, which involves expending a substantial amount of money.

In the absence of strong government intercession, bringing about this change will be difficult. The government can provide reduced-tax incentives to those factories which comply with the safety rules. The alliance of the government, industrialists, NGOs and human rights organisations is necessary to resume the GSP facility.

Welcoming news is that the country's cabinet recently approved a proposal to sign the much-awaited Trade and Investment Cooperation Framework Agreement with the US. This can provide a platform for the two countries to discuss matters before the US gives its verdict on whether or not to resume the facility six months after.

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Is the global boom in commodity prices finally over?

LINDA YUEH, *BBC News*

LIKE Graham Greene's The End of the Affair, it is hard to believe it is over and let go. But, it has been an extraordinary run, a decade of what has been called the commodity super-cycle.

It started, and perhaps will end, with China. The global integration of an economy that has grown at double digits since China joined the World Trade Organization (WTO) in December 2001 perhaps marked the start. Will China also now mark the end?

Until the last decade, the real price - so, taking off inflation - of commodities had fallen for 150 years. It was the reason why developing countries wished to diversify out of natural resources and into manufacturing.

Because agriculture prices fall over time, countries like Brazil, where more than 90 percent of exports were coffee during the immediate post-war period, would experience worsening incomes. This is why.

While prices of its exports would fall over time, imports became relatively more expensive. So, the country's terms of trade (export prices relative to import prices) would fall, leading to worsening incomes for the country.

So, during the 1950s and 1960s, Brazil diversified and reduced coffee to less than 10 percent of its exports.

Coming to an end?

But, it changed during the past decade such that Brazil, Australia and Canada, along with other countries, found themselves exporting more commodities as China and to a lesser extent other industrialising Asian countries began to demand them.

Prices were driven up and peaked in 2008, even while the US and parts of Western Europe underwent the worst recession in a century. And the commodity boom perhaps even helped Australia to be the sole G10 major economy to avoid a technical recession during the global financial crisis.

What has driven that boom, though, may be coming to an end or at least a levelling off. It is difficult to say what part of the extraordinary rise in commodity prices is due to China.

Some economists estimate that it could be as much as 50 percent. Others are more dubious. But, with China accounting for over 40 percent of demand of the world's iron ore, copper, and other metals, it is clearly a significant factor.

And as China moves into a new era of sub-10 percent economic growth, there will be an impact.

The demand for natural resources depends on industrial output. In the 2000s, industrial output in China grew at 22 percent per annum on average while the economy powered ahead. That era is likely to be over, as industrial output now grows at less than 10 percent.

That is still a healthy pace of growth, but a significant slowdown. In other words, the growth rate has halved, dropping to single digit growth from double digit.

The demand for commodities is likely to slow as well.

Just because the pace has slowed does not mean that prices will fall. They may just level off, since China is still growing strongly and other countries in developing Asia, such as Indonesia, are industrialising.

But, China's slowdown is likely to mean that the boom of the 2000s may be over. That is unless the other Asian giant, India, can industrialise and see a take-off in its growth rate. The affair with commodities may then continue.

But, Andrew Mackenzie, chief executive of the world's largest diversified mining company, BHP Billiton, doesn't think that India or any country in Asia could replicate China's demand.

For the rest of the world, though, a respite from rising commodity prices pushing up inflation and the cost of living would be a welcome relief during a period of still slow recovery in the US and Europe.

Merkel hosts leaders to fight youth unemployment

AFP, *Berlin*

GERMAN Chancellor Angela Merkel on Wednesday hosts European leaders to tackle sky-high youth unemployment, while critics charge it is an election-year show event that aims to soften the image of the continent's austerity champion.

Merkel, a strong advocate of budgetary discipline during the eurozone crisis, has in recent months warned of the threat of a "lost generation" in Greece, Spain and elsewhere where more than half of under 25-year-olds are now out of work.

In an interview on the eve of the Berlin summit, she said that youths without jobs constitute "perhaps the most pressing problem facing Europe".

"When things start to become dysfunctional, it is the job of politicians to remedy the situation," she told a group of six European newspapers.

Merkel also said those who bore no blame for the crisis, "the young or the poor ... bear the brunt of the hardship today. It is highly regrettable that parts of the economic elite assume so little responsibility for the deplorable situation."

The meeting of heads of state and government and labour ministers from across the 28-member EU comes three days after data showed the eurozone's overall jobless rate rose back to a previous record-high of 12.1 percent in May, and to 23.8 percent for under-25s.

Merkel, with French President Francois Hollande, Spain's Prime Minister Mariano Rajoy and other leaders and ministers, was to discuss how to dole out at least eight billion euros ($10.4 billion) for EU initiatives to help get almost six million jobless young people into work.

***From left*, German Labour Minister Ursula, Chancellor Angela Merkel, Germany's economy minister Philipp Roesler arrive for the weekly government cabinet meeting at the Chancellery in Berlin yesterday.**

Critics charge that the amount is a drop in the ocean given the scale of the problem, and European trade union leaders were holding an alternative event near the chancellery in the capital of Europe's biggest economy.

The available EU funds are "like aiming a garden hose at molten lava," Michael Sommer, chairman of German trade union federation DGB, told the Passauer Neue Presse daily.

DGB board member Annelie Buntenbach dismissed the conference, saying: "It wouldn't be the first time the chancellor holds a summit that leads nowhere. We fear an event for show because the young people whom this is all about won't even have a voice at the summit."

Merkel's conservative party is leading in the polls ahead of the September 22 elections but open to attack on the eurozone crisis from the centre-left Social Democratic Party (SPD).

Her chief SPD rival Peer Steinbrueck on Wednesday heaped blame on Merkel, tweeting that "youth unemployment in Europe is a direct result of Merkel's singular austerity policies".

Also expected at the meeting were EU President Herman Van Rompuy, 28 labour ministers and heads of national employment services, and the chief of the European Investment Bank.

The focus will be "concrete measures", "positive examples" and "an exchange of best practices" to create jobs for young people, said German officials who added that the available funds should be well targeted and quickly spent.

The EU executive in February announced a seven-year plan to guarantee all young people either a job, training, further education or an internship within four months of leaving school.

Germany, with a low youth unemployment rate of 7.6 percent, will tout its so-called dual system that combines apprenticeships with vocational education, and which it aims to export under agreements with Spain and Portugal.

Merkel said last week that Austria, the Netherlands and Denmark also have experience to share on their labour and training systems.