No gains for financial sector with a slowing economy

IPDC chief warns unrelenting political turmoil will affect non-bank financial institutions

GAZI TOWHID AHMED

THE financial sector is likely to record underwhelming earnings for 2014 if the political situation does not improve soon, said the managing director of IPDC, a top non-bank financial institution.

As economic activities slow down, non-bank financial institutions (NBFIs) will see a decline in profits, Mominul Islam told The Daily Star in a recent interview.

The financial sector, both banks and NBFIs, has been experiencing a slowdown in loan repayments, as businesses struggle to operate normally, said Islam, the youngest managing director in the financial sector.

"In the last two years, banks and NBFIs struggled to retain their profits, but this year, we have seen the real economy being affected by the political impasse."

The manufacturing and services sectors are being hit by the current political crisis, which is going to impact the banks and NBFIs, he said.

"So if there is a negative shock in the economy, the entire financial sector will definitely bleed for that," he said. "We could survive in the face of the capital market and real estate bubble burst, but IPDC is going to be affected by an economic slowdown."

IPDC, abbreviated for Industrial Promotion and Development Company of Bangladesh, is not trying to be aggressive in soliciting new financing as the market is slowing, he said.

"However, the slowdown is a temporary phenomenon and our economy is resilient and can bounce back."

Business activities in the country will get a boost after the election, the MD said.

"We are more competitive in external trade as our export-import constitutes more than 50 percent of GDP, which is higher than India, Pakistan or Nepal."

When exports and imports are high, it helps the banks and financial institutions to do business, he said. "We are expecting the economy to soon see an upward trend."

In Bangladesh now, there are 31 NBFIs doing various types of businesses, including financing and capital market business. IPDC is a pioneer in leasing financing in Bangladesh.

"From the incubation period, the financial sector is moving to maturity. It has gone through many transformations."

NBFIs have diversified their business models and products; the sector is now not only involved in lease financing, but it is also giving term-loans and syndicated loans, said the managing director.

Since 2006, most NBFIs are heavily involved in the capital market. "As we saw a capital market boom from 2006 to 2010, the profitability of many NBFIs jumped."

Unfortunately, at the end of 2010, the bubble burst and most NBFIs are struggling to maintain profitability, he said. Institutional investors like banks and NBFIs did not behave like full-grown institutional investors, and as a result, individual investors were influenced by them, he added.

Mominul Islam

The position of institutional investors in the market should be based on company fundamentals like cash flow, future earnings and performance, he said.

"But what happened in our stockmarket is that they violated their investment limits. They focused on short term profits."

"Their profits were not sustainable. You have increased your company's cost base but you certainly cannot limit your costs when profitability drops."

Financial institutions should be cautions in the future about this sort of a phenomenon, he said.

"We should be concerned about the risk parameters in whatever business we are doing."

There are a few financial institutions that have done well even in this challenging period as they have no involvement in the stockmarket and real estate, he said.

"We did not get involved in the speculative capital market although we make venture capital and preference share investment, which helped IPDC do better business in a challenging market."

Among the NBFIs, IPDC saw the highest profit of Tk 7.13 crore in January-September, a 386.3 percent surge from the same time a year ago.

IPDC recorded a 30-35 percent growth in operating profits, while most NBFIs saw negative growth, he said.

"Whatever we have disbursed in loans, none are non-performing. We are continuously improving our asset quality," he said.

On self-sufficiency, Islam would like NBFIs to move away from the bank borrowing model and initiate their own deposit making efforts.

"Almost all NBFIs depend on the money market and corporate borrowings to generate funds. As a result, when liquidity becomes tight, NBFIs suffer as their borrowing rates go up and funds become scarce."

Many financial institutions learned lessons the hard way during recent stockmarket shocks and they are trying to increase their deposit base so that they do not have to rely on bank borrowing, he said.

Moreover, Islam deems the cost of funding for NBFIs in Bangladesh to be excessive.

"Banks are still charging NBFIs 17-18 percent, which is too high. That is why, at IPDC, I decided in 2006 to move away from this bank borrowing model and initiated our own deposit marketing efforts."

IPDC become totally independent on its own sources of funds. "We are dependent on our customers' deposits."

"Last year, there was a severe liquidity crisis in the market and banks raised the interest rate to 18 percent for NBFIs. We did not face a setback while many others struggled."

When NBFIs borrow funds at 18 percent and lend out funds for 20-22 percent, it is difficult for borrowers to pay back loans, which increases non performing loans, he said.

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Japan's SoftBank on course to buy T-Mobile

AFP, *Tokyo*

JAPAN'S SoftBank plans to acquire T-Mobile US through its subsidiary Sprint in a move that would create the world's second largest mobile carrier by revenue after China Mobile, a report said Wednesday.

SoftBank intends to buy a majority stake in fourth-ranked US wireless carrier T-Mobile in early 2014 in a transaction with an estimated price tag of more than 2 trillion yen ($19 billion), the Nikkei business daily said.

It is in the final stages of talks with T-Mobile's parent, Deutsche Telekom of Germany, the economic daily quoted anonymous sources close to the matter as saying.

SoftBank declined to comment on the report. Shares in the firm fell 0.56 percent to 8,760 yen in Tokyo morning trade.

The purchase would boost the SoftBank group's annual revenue from mobile operations to $69.4 billion, making it the world's No. 2 carrier behind China Mobile with $90.4 billion, the Nikkei said citing, industry figures.

SoftBank had initially envisioned a stock swap but it is believed to have added a tender offer and other transactions to the list of options, since Deutsche Telekom prefers a cash deal, it said.

The Japanese group has begun talks with US financial institutions for loans to finance the deal, it said.

SoftBank aims to compete better with the two US giants -- Verizon and AT&T -- by integrating T-Mobile with Sprint to create a stronger number three player with some 100 million subscribers, it said.

Rolls-Royce investigated for bribery

BBC NEWS

THE Serious Fraud Office (SFO) has started a formal investigation into Rolls-Royce over concerns about bribery and corruption in its overseas markets.

The aerospace firm said: "We have been informed by the Serious Fraud Office that it has now commenced a formal investigation into these matters."

It was asked by the SFO to provide information about possible bribery in China and Indonesia in December 2012.

Some of the allegations date back more than 10 years.

They involve Rolls-Royce's "intermediaries", which are local companies that handle sales, distribution, repair and maintenance in countries where the British firm does not have enough people on the ground.

In December 2012, when Rolls-Royce started talks with the SFO, it highlighted that it had been strengthening its internal compliance procedure since 2008.

It also said it had established a new code of conduct and would be hiring an independent consultant to review its current procedures.

The British company employs more than 40,000 people in 50 countries.

Ben Bourne, an aerospace analyst at Liberum Capital, said: "It [Rolls Royce] has taken a pretty hard line already. It would have dealt with any problems."

US flouts its own advice in procuring overseas clothing

NEW YORK TIMES

ONE of the world's biggest clothing buyers, the United States government spends more than $1.5 billion a year at factories overseas, acquiring everything from the royal blue shirts worn by airport security workers to the olive button-downs required for forest rangers and the camouflage pants sold to troops on military bases.

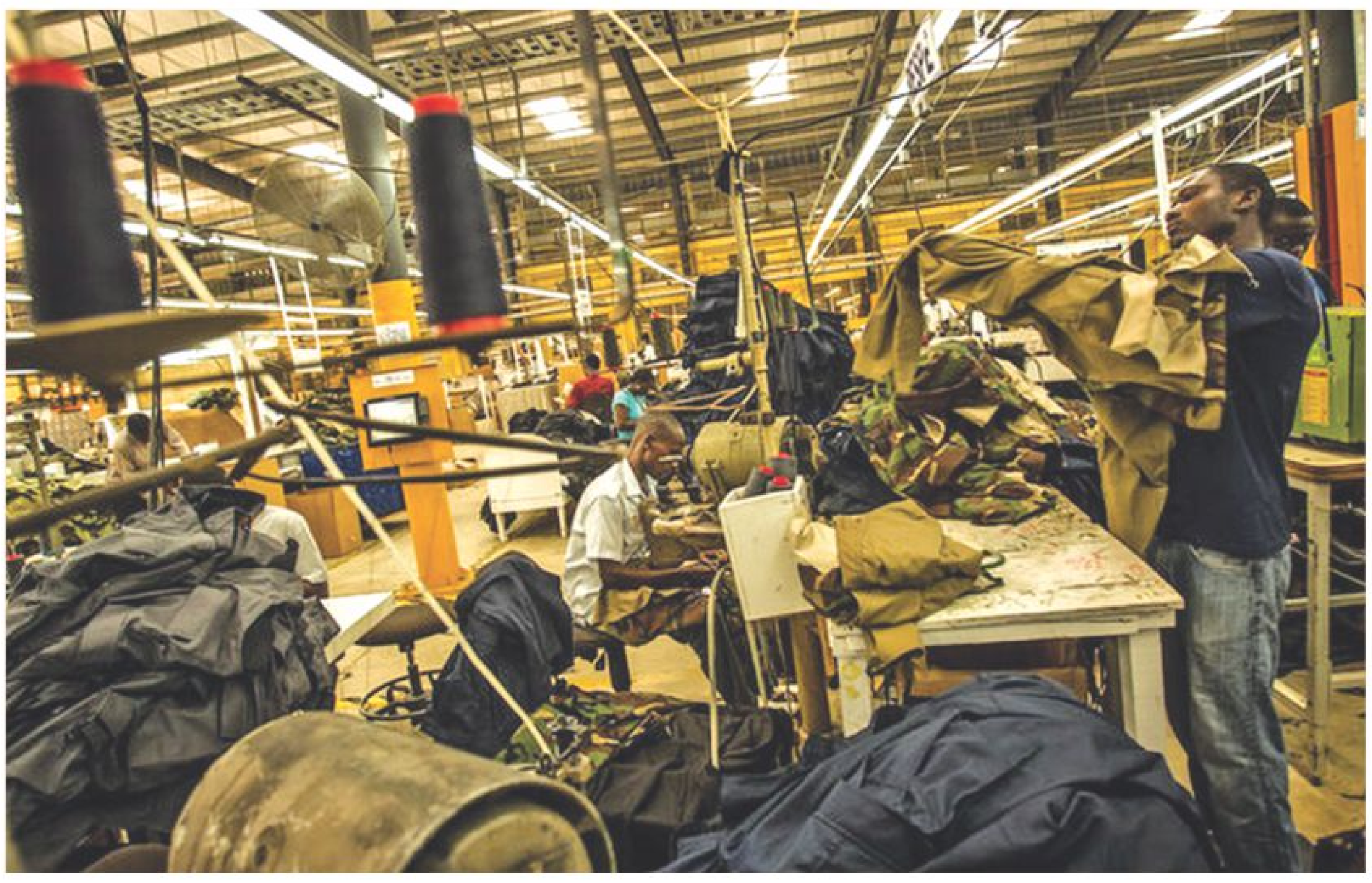
But even though the Obama administration has called on Western buyers to use their purchasing power to push for improved industry working conditions after several workplace disasters over the last 14 months, the American government has done little to adjust its own shopping habits.

Labour Department officials say that federal agencies have a "zero tolerance" policy on using overseas plants that break local laws, but American government suppliers in countries including Bangladesh, the Dominican Republic, Haiti, Mexico, Pakistan and Vietnam show a pattern of legal violations and harsh working conditions, according to audits and interviews at factories.

Among them: padlocked fire exits, buildings at risk of collapse, falsified wage records and repeated hand punctures from sewing needles when workers were pushed to hurry up.

In Bangladesh, shirts with Marine Corps logos sold in military stores were made at DK Knitwear, where child labourers made up a third of the work force, according to a 2010 audit that led some vendors to cut ties with the plant. Managers punched workers for missed production quotas, and the plant had no functioning alarm system despite previous fires, auditors said. Many of the problems remain, according to another audit this year and recent interviews with workers.

In Chiang Mai, Thailand, employees at the Georgie & Lou factory, which makes clothing sold by the Smithsonian



THE NEW YORK TIMES

Workers make camouflage military uniforms for Propper International, an American company, at BKI garment factory in the Codevi industrial park in Ouanaminthe, Haiti.

Institution, said they were illegally docked over 5 percent of their roughly $10-per-day wage for any clothing item with a mistake. They also described physical harassment by factory managers and cameras monitoring workers even in bathrooms.

At Zongtex Garment Manufacturing in Phnom Penh, Cambodia, which makes clothes sold by the Army and Air Force, an audit conducted this year found nearly two dozen underage workers, some as young as 15. Several of them described in interviews with The New York Times how they were instructed to hide from inspectors.

"Sometimes people soil themselves at their sewing machines," one worker said, because of restrictions on bathroom breaks.

Federal agencies rarely know what factories make their clothes, much less require audits of them, according to interviews with procurement officials and industry experts. The agencies, they added, exert less oversight of foreign suppliers than many retailers do. And there is no law prohibiting the federal government from buying clothes produced overseas under unsafe or abusive conditions.

"It doesn't exist for the exact same reason that American consumers still buy from sweatshops," said Daniel Gordon, a former top federal procurement official who now works at George Washington University Law School. "The government cares most about getting the best price."

Frank Benenati, a spokesman for the Office of Management and Budget, which oversees much of federal procurement policy, said the administration has made progress in improving oversight, including an executive order last year tightening rules against federal suppliers using factories that rely on debt bondage or other forms of forced labour.

"The administration is committed to ensuring that our government is doing business only with contractors who place a premium on integrity and good business ethics," he said.

Labour and State Department officials have encouraged retailers to participate in strengthening rules on factory conditions in Bangladesh — home to one of the largest and most dangerous garment industries. But defense officials this month helped kill a legislative measure that would have required military stores, which last year made more than $485 million in profit, to comply with such rules because they said the $500,000 annual cost was too expensive.

Federal spending on garments overseas does not reach that of Walmart, the world's biggest merchandiser, which spends more than $1 billion a year just in Bangladesh, or Zara, the Spanish apparel seller, but it still is in a top tier that includes H & M, the trendy fashion business based in Sweden, Eddie Bauer and Lands' End, sellers of outerwear and other clothing.

Like most retail brands, American agencies typically do not order clothes directly from factories. They rely on contractors.

This makes it challenging for agencies to track their global supply chain, with layers of middlemen, lax oversight by other governments, few of their own inspectors overseas and little means of policing factories that farm out work to other plants without the clients' knowledge. When retailers, labour groups or others inspect these factories, the audits often understate problems because managers regularly coach workers and doctor records.

The United States government, though, faces special pressures. Its record on garment contracting demonstrates the tensions between its low-bid procurement practices and high-road policy objectives on labour and human rights issues.

The Obama administration, for example, has favoured free-trade agreements to spur development in poor countries by cultivating low-skill, low-overhead jobs like those in the cut-and-sew industry. The removal of trade barriers has also driven prices down by making it easier for retailers to decamp from one country to the next in the hunt for cheap labour.

Most economists say that these savings have directly benefited consumers, including institutional buyers like the American government. But free-trade zones often lack effective methods for ensuring compliance with local labour laws, and sometimes accelerate a race to the bottom in terms of wages.

Along a dirt road in Gazipur, about 25 miles north of the Bangladeshi capital, riot police fired tear gas shells, rubber bullets and sound grenades in a fierce clash with garment workers last month, sending scores to the hospital. The protesters demanding better conditions included some from a factory called V & R Fashions. In July, auditors rated that factory as "needs improvement" because workers' pay was illegally docked for minor infractions and the building was unsafe, illegally constructed and not intended for industrial use.