

# UK's PrimaDollar offers funds to apparel makers

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**G**ARMENT factories, especially the small and medium-sized units, which are facing a financial crunch have good news as foreign financing companies are coming over to invest in the sector.

One such company is PrimaDollar which is based in the UK and operates around the globe. It has already created a good customer base in Bangladesh starting operations a little more than a year ago.

Tim Nicolle, chief executive officer of PrimaDollar, visited Bangladesh recently and shared his ideas of business, the future of his business and the country's prospects in apparel business. Below are excerpts from an exclusive interview with The Daily Star (TDS).

**TDS:** Would you please explain your business model in Bangladesh?

**Nicolle:** PrimaDollar is an impact financier. Of course, we aim to make a profit, but we also want our funding to deliver wider social benefits. We help factories in emerging markets to be successful internationally by helping them with their local cash flow.

There is a cash flow gap. Buyers typically want to purchase goods on credit. They want to receive goods and pay later. But factories need money upfront to buy materials and pay wages.

This is a problem for four important reasons:

1) Competition: Factories which do not have access to finance lose business to competitors which do. (For Bangladesh, this means factories in other countries like in China, Thailand, Vietnam and India where local banks are less regulated);

2) Small and medium enterprises (SME): If small and medium sized factories are not helped with finance, they will end up subcontracting for bigger factories (who can give buyers

credit); it is essential that SMEs can deal with customers directly; SMEs are the engine of future economic growth;

3) Foreign exchange regulations: If the goods are exported and the buyer does not pay, this is an offence under the foreign exchange regulations (for both the supplier and the local bank involved);

4) Profits: Many larger factories now have no choice but to accept the pricing that they initially offered; after years of investment, they are in debt to the bank, and cannot tolerate any period of idleness in the lines.

Relying only on big buyers is not good for margins – the profit is in mid-sized buyers. But mid-sized buyers definitely want to pay later and also want to work without letters of credit (LC) and this is risky.

Many big factories are now facing the challenge of (a) diversifying their client base and (b) how to work with mid-sized buyers and give them credit. Otherwise they cannot improve their margins.

So we do three things enabling factories and buying houses to give what the buyers want, which is a purchase order without LC and giving the buyer time to pay (60, 90 or 120 days).

**TDS:** How will Bangladesh's garment sector benefit from such an innovative business model?

**Nicolle:** Our model in Bangladesh is no different than what are in other emerging markets of manufacturing countries but the need for our services in Bangladesh is much higher.

Bangladesh is one of the largest consumers of LC in the world. This is the custom and practice for international trade and local banks (and factory owners) are used to asking for LCs (and getting it) from their buyers.

Moreover, the price advantage that Bangladesh enjoyed (lower labour



Tim Nicolle

costs) is disappearing. Bangladesh has great skills and wonderful people but it needs to find a way to be easier and more convenient for buyers.

**TDS:** When did you start business in Bangladesh? How many clients do you have now in Bangladesh and how many were there last year?

**Nicolle:** We have been trading now for 12 months. We financed around 90 shipments in our first year, working with over 40 different buyers and suppliers. We are achieving a high level of rolling trades now, with suppliers sticking with us for repeat business. So it is working nicely.

We have developed a new financial product that is cheaper, quicker and simpler than LC. This is the future. Our new system saves maybe \$1,000

for every \$100,000 of export volume.

**TDS:** So far, I can understand your business model is working just like back to back LC. What are the differences between your business model and back to back LC in garment business in Bangladesh?

**Nicolle:** LC just got more and more complicated, technical and difficult. All this hassle translates into costs -- a lot of buyers' time eaten up in filling forms and abiding by procedures, fees to international banks (offshore), a lot more risk and plenty of worry over settlement arrangements. It is time for something simpler.

Our system provides the same protections and benefits to the local bank and factory owner. But we can

deliver these results cheaper, simpler and quicker than the LC system.

**TDS:** Why did you start business in the garment sector, particularly in Bangladesh?

**Nicolle:** Like all good businesses, it starts with an idea. Then you look for the problem for which the idea is a solution.

Firstly, we looked in detail at international trade finance. We concluded it can be reformed. International banks charge a lot for what they provide and we can take out those costs for the exporters.

Secondly, any start-up company, especially if the idea is new, should focus on markets that are growing. A growing market provides an opportunity to sell and win new business without having to replace an existing provider.

Thirdly, we looked at global trade patterns and we can see that China is becoming expensive, and that certain products are shifting to South Asia. These are products like garments, leather goods, furniture, light manufactured items and household goods. There is a high labour content in production and setting up a factory does not need a lot of capital (relatively).

Fourthly, from all this data we picked garments and Bangladesh. It is the standout opportunity for us and it is the standout opportunity for you as well.

**TDS:** In case the garment buyers make a delay or try to cheat you of your money, how would you realise those from the buyers? When you face such a loss, how will the garment manufacturers get payment from your business?

**Nicolle:** We pay factories against shipping documents -- often against copies of documents where we have an arrangement with the local bank working in the shipping process. So the factory does not wait for the money, and face no risk from us.

Getting the buyers to pay is trickier but that is our risk. There are several techniques that we use to persuade buyers to pay promptly, and we have never yet had a default.

Typically we are working in supply chains that repeat business every month. So buyers rely upon us (as well as the factory) to ensure that shipping documents are being cleared.

We use credit insurance when we are unsure of the buyer's standing or when the level of business is low. The credit insurer is very powerful and no buyer wants us to inform an insurer that he is late in payment. This works very well.

**TDS:** How is the central bank helping you in your business in Bangladesh?

**Nicolle:** The central bank is not there to help us. It is there to protect the interests of depositors in regulated banks, and to protect the foreign currency receipts of the country. So we have not asked for any help.

We have asked the central bank to look at our technology and to assess whether our working models comply with the relevant regulations. They have kindly done this; and following their review, they also have made themselves available to local banks having questions.

**TDS:** What is your observation with regard to the garment business in Bangladesh in the near future as many other competitors are also struggling to do better in this kind of business?

**Nicolle:** There is good news and there is bad news. The good news is that China is sitting there approaching an annual garment export of \$200 billion and is still expensive.

The bad news is that Bangladesh is no longer incredibly cheap. Wages have risen and the Bangladeshi garment industry is the most regulated in the world -- so there are now cheaper places to go.

## VW's Dieselgate bill hits \$30b after another charge



REUTERS/FILE

Guests look at a Volkswagen car during the media day at 15th Shanghai International Automobile Industry Exhibition in Shanghai.

REUTERS, Hamburg/Berlin

**V**OLKSWAGEN is taking another \$3 billion charge to fix diesel engines in the United States, lifting the total bill for its emissions-test cheating scandal to around \$30 billion.

The German group is struggling to put the two-year-old "Dieselgate" scandal behind it, and working to transform itself into a maker of mass-market electric cars.

On Thursday, Munich prosecutors said they had arrested a former Porsche management board member, the first top executive within the group to be detained amid a widening probe into cheating at VW's Audi brand.

VW's growing financial woes and Wolfgang Hatz's arrest were also discussed on Friday at a regular meeting of the carmaker's supervisory board, one person familiar with the matter said.

VW shares fell as much as 3 percent on Friday, as traders and analysts expressed dismay that the company was still booking charges for "Dieselgate".

Evercore ISI analyst Arndt Ellinghorst said the news was unexpected and unwelcome, "not only from an earnings and cash flow perspective but also with respect to the credibility of management".

VW, Europe's biggest automaker, admitted in September 2015 that it had used illegal software to cheat US diesel emissions tests, sparking the biggest business crisis in its 80-year history. Before Friday, it had set aside 22.6 billion euros (\$26.7 billion) to cover costs such as fines and vehicle refits.

Last year, VW agreed with US authorities to spend up to \$15.3 billion to buy back or fix up to 475,000 2.0-litre pollutant diesel cars.

On Friday, VW said it was setting aside an additional 2.5 billion euros (\$3.0 billion) as hardware fixes for the models were proving tougher than expected and would take significantly longer. Ellinghorst said the complications would amount to 5,200 euros per car.

"We have to do more with the hardware," a VW spokesman said.

In Europe, where only a software update is required for the 8.5 million affected cars, plus a minor component integration for about 3.7 million 1.6-litre vehicles included in that number, fixes are running smoothly, the spokesman added.

The additional provision will be reflected in third-quarter results due on Oct. 27, VW said.

Ellinghorst, who has an "outperform" rating on VW shares, expects the company to report third-quarter group earnings before tax and interest of 4.04 billion euros.

At 1340 GMT, VW shares were down 0.4 percent at 137.80 euros. They fell as low as 86.36 euros in the immediate aftermath of the cheating revelations, from pre-scandal levels over 160 euros.

As recently as Sept. 11, chief executive Matthias Mueller had maintained in an interview with Reuters that provisions made to date would suffice.

"It has now become clear that we need to do more," a spokesman said on Friday, without elaborating.

VW said in September 2015 that around 11 million vehicles worldwide could be using software capable of cheating emissions tests. Audi, its luxury division, admitted two months later that about 83,000 vehicles with 3.0-litre V6 diesel engines were also fitted with an auxiliary control device deemed illegal in the US.

## Trump to decide Fed chair in two, three weeks

AFP, Washington

**U**S President Donald Trump indicated Friday he would select his nominee to be the next Federal Reserve chair within weeks, after meeting potential candidates.

Trump said he would decide who chairs the US central bank, after interviewing Kevin Warsh, Jerome Powell and two other candidates.

"I've had four meetings" Trump said as he left the White House for a weekend at his golf club in New Jersey. "I'll be making a decision over the next two or three weeks."

The US leader has to decide whether to replace Janet Yellen as Fed chair when her four-year term is up in February.

On Thursday, Trump met Kevin

Warsh, a Federal Reserve governor during the 2008 financial crisis and former Morgan Stanley banker. Trump also reportedly spoke to current Federal Reserve governor Powell. The US president may have to fill more than one spot on the bank.

Federal Reserve Vice Chair Stanley Fischer has announced he will retire next month. The 73-year-old will step down on October 13, about eight months before his term as vice chair was due to expire, and two and a half years before the end of his term on the board.

That leaves Trump with a rare opportunity to set the tone of the institution which decides interest rates and has a huge role in steering the global economy.



REUTERS/FILE

A police officer keeps watch in front of the US Federal Reserve building in Washington DC.

## China's factories grow at fastest pace in over five years as prices surge

REUTERS, Beijing

**C**HINA'S manufacturing activity grew at the fastest pace since 2012 in September as factories cranked up output to take advantage of strong demand and high prices, easing worries of a slowdown before a key political meeting next month.

Production, total new orders and output prices all improved to the highest level in at least a year, while a pick-up in a reading for the construction sector indicated a building boom is undiminished. The official Purchasing

Managers' Index (PMI) released on Saturday rose to 52.4 in September, from 51.7 in August and well above the 50-point mark that separates growth from contraction on a monthly basis.

It marked the 14th straight month of expansion for China's massive manufacturing industry and the highest reading since April 2012. Analysts surveyed by Reuters had forecast the reading would ease slightly.

The data comes ahead of the Communist Party Congress in mid-October, a once-every-five-years meeting where new leaders are appointed and the government's key political and economic initia-

tives are laid out, though details are usually not announced until much later. China's manufacturers are reporting their best profits in years, fueled by government-led infrastructure spending, a strong housing market, higher factory-gate prices and a recovery in exports.

"Over the short term, we believe the resilient demand growth and disciplined balance sheet expansion ... will point to further improvement in manufacturing profitability and investment returns," analysts at China International Capital Corporation said in a note after the data. But cost pressures from high raw materials prices and continued underperformance of smaller firms mean some manufacturers are still struggling.

"Mid- and downstream industries are worried about a further increase in cost pressures," National Bureau of Statistics official Zhao Qinghe wrote in comments published with the data. The latest survey showed input prices continued to rise at a solid clip, with the reading at 68.4 compared with 65.3 in August, benefiting upstream producers such as miners, smelters and oil refiners.

Indexes for raw materials prices in the paper, wood processing and furniture, and chemical products manufacturing industries were all above 75.0, said Zhao, indicating large price increases. Output prices also rose but at a slower pace, pointing to lower profit margins for companies further along the supply chain who are unable to pass on all of the price increases to their customers.

A separate PMI on the steel industry fell to 53.7 in September from 57.2 in August but remained in solid expansion territory, as the industry faces production restrictions aimed at reducing choking air pollution over the winter.



REUTERS/FILE

A worker rolls away carts of unused tools between rows of spinning machine at a factory owned by Hong Kong's Novetex Textiles in Zhuhai City, Guangdong Province, China.