SMEs and technology were game changers for IPDC

Says Managing Director Mominul Islam in an interview with The Daily Star

Ahsan Habib

IPDC Finance has recovered from a sinking position to become one of the best non-bank financial institutions (NBFIs) in Bangladesh by shifting its focus to untapped sectors, according to the company's Managing Director Mominul Islam.

Back in 2006, the country's first NBFI saw its default loan rate soar to 37 per cent while another 13 per cent was at risk of being rescheduled.

As such, IPDC's performance started lagging as it slipped from top spot to 21st among 33 financial institutions.

"So, we stepped forward and took some initiatives to bring radical changes to the company," Islam told The Daily Star in a recent interview.

"First, we worked to clean the balance sheet of bad assets," he said.

IPDC then worked to standardise its policies to prevent new loans from turning sour before going on to improve the technical know-how and efficiency of employees to make its business environment transparent and customer centric.

After that, the NBFI took aim at some unexplored areas in the small-and-medium enterprise (SME) sector outside of Dhaka and Chattogram. Most lenders do not prefer SMEs even though there are more than 78 lakh cottage, micro, small and medium enterprises across Bangladesh that are a safe bet.

"Besides, our corporate directors were aware of the company's situation and did not force any measures on us and instead allowed us to take any decision necessary," Islam added.

Deposits with IPDC stood at about Tk 4,753 crore while its total loans and advances amounted to Tk 6,136 crore as of September this year.

IPDC's current classified loan ratio is 1.64 per cent, company data shows.

Islam said the NBFI set aside around Tk 120 crore, or 2 per cent of its total loans, as an additional provision to protect against any unexpected impacts of Covid-19.

But rather than falling prey to the coronavirus fallout, IPDC's profits surged to Tk 70 crore in 2020, up 25 per cent from Tk 56 crore the year before. Meanwhile, its profits have already soared to Tk 84 crore in the first nine months of this year.

IPDC became the first non-bank financial institution in the country back in 1981 with an aim to support private sector growth.

Aligning with this goal, IPDC helped fund many private sector initiatives from five-star hotels to international standard hospitals, the managing director said.

The NBFI also kicked off a number of financial products in Bangladesh, such as housing finance, venture capital, preferred shares, and so on.

IPDC's struggle for survival began when private banks first started popping up across Bangladesh as it faced serious competition from traditional lenders that have no restriction on providing long-term loans.

In many countries, banks are not allowed to provide such loans and mostly deal with short-term disbursements or other services. Instead, NBFIs are there to cater to long-term loans for industrialisation.

Even in Sri Lanka, no banks are allowed to disburse loans for a period of more than three years. So, NBFIs in the country do not face much competition in this regard.

But since there is no such bar on banks in Bangladesh, IPDC had suffered for its failure to strengthen its internal capacity and business strategy in line with the new economic environment.


Mominul Islam

Besides, funds from international financiers had dried out, forcing the NBFI to start borrowing from commercial banks to only re-disburse the funds as long-term loans.

"That was a huge mistake," Islam said.

At one stage, assuming that IPDC might go bankrupt, many employees left the business.

But despite all these challenges along the way, IPDC bounced back strongly after some young and energetic blood was injected into the company alongside Islam in 2006, when it had no star players.

And after the NBFI introduced some fresh policies and risk management criteria, and cleaned its balance sheet, Brac came forward in 2015 to invest in it.

Now, the non-government development organisation holds a 25 per cent stake in IPDC while the government holds 22 per cent, the Ayesha Abed Foundation holds 10 per cent, Uttara Group holds 11 per cent, RSA Capital holds 5 per cent, and the rest is owned by stock market investors.

"We reshaped our business plan and targeted SMEs as there were several banks that lent to big industries but micro, cottage, small and medium enterprises had no one to turn to for finance even though it was a vast and untapped sector," he said.

IPDC also targeted people, including women, outside Dhaka and Chattogram who could hardly avail any financial service despite an increase in their income level.

"Our target was to lend at a very small ticket and the response has been fantastic as their repayment behaviour is much better than big borrowers," the managing director added.

However, the company's distribution channel and systematic process to reach SMEs both inside and outside the two major metropolitan zones was not very cost effective.

> *Deposits with IPDC stood at about Tk 4,753 crore while its total loans and advances amounted to Tk 6,136 crore as of September this year*

IPDC then realised that technology would be a key driver to reach these clients in a quick and cost-effective way.

Since SMEs do not have any collateral to offer against their loans, IPDC issues disbursements against their work orders or other bills.

"We have already built up a digital platform with the help of IBM, so now everything from work order issuance to bill submission can be done online and with that, IPDC can sanction a loan within three working days," Islam said.

The NBFI also introduced a blockchain based product called Arjon to lend to retailers. IPDC lent about Tk 1,000 crore last year through the blockchain system.

"We have been working with Unilever and British American Tobacco Bangladesh as well to lend their suppliers in rural areas," he added.

IPDC already catered to the loans of 13,000 customers through its Dana project and aims to reach 10 lakh customers by 2026. Its app based system is underway.

For a better distribution channel, the company went for collaborations with many companies, such as BSRM, Berger, and bKash, to make the lending process easy and cost-effective.

These collaborations and the introduction of new technology were game changers.

Regarding challenges in the NBFI sector, Islam said the first issue is image building as the poor performance of some companies affects the entire industry.

The second challenge is ensuring long-term financing for the sector.

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Stocks bounce back on optimism

DSE key index soars 2.14pc

Star Business Report

Bangladesh stocks bounced back yesterday following Tuesday's big sell-off after a statement came from the Bangladesh Securities and Exchange Commission (BSEC) on the outcome of its meeting with Bangladesh Bank.

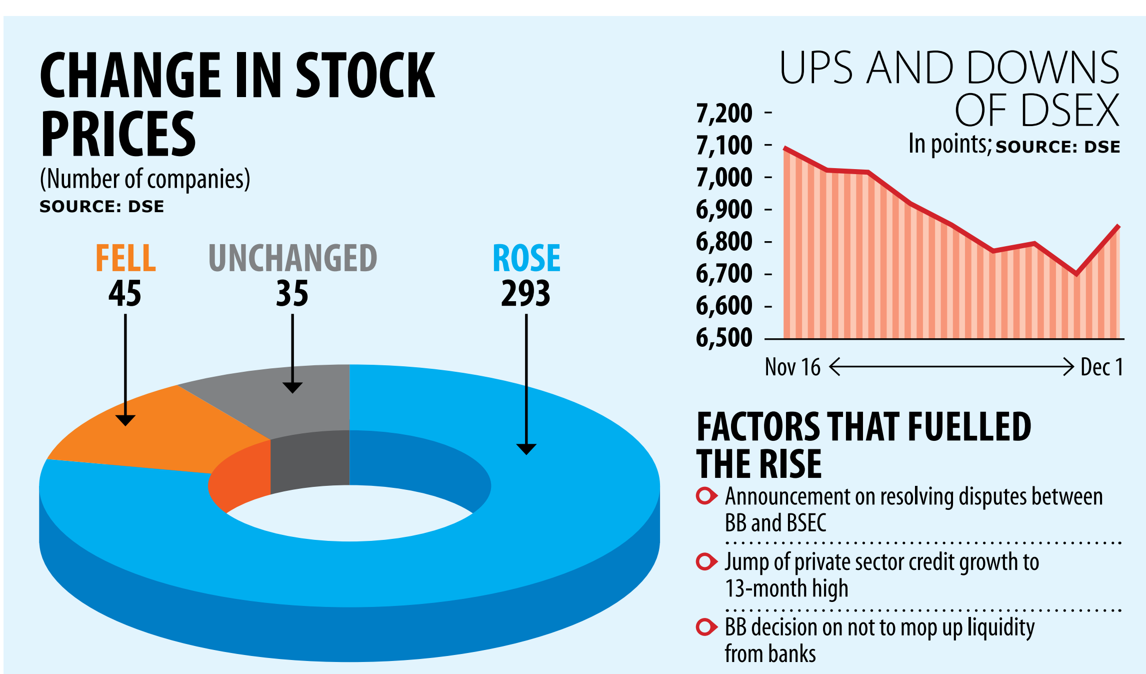
The DSEX, the benchmark index of Dhaka Stock Exchange (DSE), soared 143 points, or 2.14 per cent, to 6,847 following its 92 point decline the previous day.

Stock market analysts said the market rose due to hopes prevailing among investors of banks and non-bank financial institutions increasing their participation as some issues of dispute had been solved in the meeting held at the central bank on Tuesday.

After the meeting, BSEC Commissioner Shamsuddin Ahmed said Bangladesh Bank had agreed to consider the market exposure of banks and NBFIs based on the cost value of their investments in the stock market instead of the market value of the shares.

"The BB had also agreed to allow the lenders to exclude their bond investment from the calculation of the exposure," he said.

The central bank will allow banks and non-bank financial institutions to channel the undistributed dividends into the stock market stabilisation fund, the commissioner informed.



Turnover of the DSE, however, fell 3 per cent to Tk 1,102 crore. At the premier bourse, 293 stocks advanced, 45 declined and 35 remained unchanged.

The Dhaka bourse rebounded to the green as investors were making fresh bets on select stocks amidst the prevalence of optimism, said International Leasing Securities in its daily market review.

On Tuesday's meeting, two regulatory authorities, the BSEC and BB, agreed upon some prudent measures to boost up stocks, which motivated investors to make new investments in sector-specific lucrative stocks, it said.

Investors' activity was mostly centered on bank (30.8 per cent), pharmaceuticals (14.3 per cent) and miscellaneous (12.7 per cent).

A top official of a stock broker said a higher private sector credit growth and the central bank's decision not to mop up money in order to ease liquidity gave a boost to investors' confidence.

Such activities indicate that liquidity in the money market will be eased and it will impact the stock market positively, he added.

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ISSUES OF DISPUTE

BB refutes BSEC statement

Star Business Report

Bangladesh Bank yesterday refuted the Bangladesh Securities and Exchange Commission's (BSEC) statement on Tuesday that two issues on which the two regulators had a dispute on had been resolved through a meeting that day.

No decision was taken in Tuesday's meeting to bring changes to Bangladesh Bank's previous orders, said the central bank.

What is more, the stock market regulator was requested to bring changes to its previous notifications, said the central bank in a press release.

Of the two issues of dispute, one was over the participation of banks and non-bank financial institutions (NBFIs) in a BSEC capital market stabilisation fund, directed by the BSEC.

The other was over a BSEC order allowing

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Govt support was scarce considering Covid fallout

Says an economist

Star Business Report

Annual BIDS Conference on Development 2021

The government support extended to ordinary people amid the ongoing coronavirus pandemic was insufficient to sustain their livelihoods and contribution to the overall economy, a noted economist said yesterday.

With the advent of Covid-19, the government rightly enforced complete economic shutdowns in a bid to control virus transmission, according to SR Osmani, a professor of development economics at the University of Ulster in the UK.

However, recurring lockdowns led to an economic downturn where many people lost their jobs.

"And although the government did offer some support, it was not enough to sustain their economic activities," Osmani said at a session of the Annual BIDS Conference on Development 2021 at Lakeshore Hotel in Dhaka.

Instead of ensuring continued direct support for regular people, the government decided to reopen the economy so that it could avoid providing the support for a prolonged period.

"It was a pre-matured reopening of the economy which affected the lives of people," he added.

The poor financial support of the government is reflected in its data.

For instance, some 20.3 per cent of the total government support package was protection oriented while 79.7 per cent was growth oriented as the government's intention was to generate economic activities rather than protect people.

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There's still space for raising public debt

But quality and timely execution is key, says former World Bank economist

Star Business Report

Bangladesh's current debt to gross domestic product (GDP) ratio of 40.7 per cent is still sustainable and there is space for increasing public debt.

But the key issue is timely and quality spending of public funds to generate better results for the economy, life and livelihoods, a leading economist said yesterday.

"Our problem has never been the lack of intention to spend more, the problem is in our ability to turn intentions into meaningful actions," said Zahid Hussain, ex-lead economist at The World Bank, Dhaka.

He went on to say that the Annual Development Programme implementation rate recently fell to an 11-year low as a result.

"Targeting and execution challenges in social protection programmes and subsidised credit for cottage micro and small enterprises have dragged domestic economic recovery," added Hussain while presenting a paper on the economy, fiscal sustainability and implications for recovery at the three-day BIDS Conference on Development 2021.


Zahid Hussain

Annual BIDS Conference on Development 2021

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Digitalisation not contributing much to GDP growth: study

Star Business Report

Increasing digitalisation and tele-density has contributed to the country's economic growth but it has not been as significant as in countries like India, said a study unveiled yesterday.

The share of information and communication technology (ICT)-related sectors to gross domestic product (GDP) is about 13 per cent in Bangladesh while it is about 26 per cent in India.

"To accelerate growth, we can rethink our digitalisation approach," said Monzur Hossain, research director of the Bangladesh Institute of Development Studies (BIDS), presenting a paper in a session at an Annual BIDS Conference on Development (ABCD) 2021.

The BIDS organised the three-day event at Lakeshore Hotel in Dhaka marking the 50th anniversary of Bangladesh's independence.

The study assessed the sector-wise contribution of the ICT to GDP in seven categories and found that the largest increase in the share of ICT equipment and service producing sectors has been observed in posts and telecommunications division.

The ICT-focused manufacturing industries, which includes electrical and optical equipment and telecommunication services, increased their share in GDPto 2.64 per cent between 2015 and 2019 from 1.83 per cent from 2005 to 2010, Hossain said.


Monzur Hossain

However, contribution of other sectors such as those making use of ICT in manufacturing and services, as percentage of GDP, has rather remained stagnant which is the reason behind low impact of ICT on economic growth, he added.

Attention should be paid how use of IT can be increased in the manufacturing sector, Hossain said.

He said manufacturing and services sectors making use of the ICT constituted about 12 per cent of the total GDP in terms of employment between 2005 and 2009. It increased to 19 per cent from 2015 to 2019.

Annual BIDS Conference on Development 2021

"Clearly, the ICT sector, though the size of ICT producing sector is small, show a remarkable increase both in employment generation and gross domestic product (GDP) over time," said Hossain.

This substantiated the importance of this sector for the Bangladesh economy, he added.

He said teledensity and ICTs have significant impacts on "Total Factor Productivity" (TFP) -- the productivity of all inputs taken together -- growth and thus the overall GDP growth as well.

"Total factor productivity and labour productivity growth has been gradually increasing after 2010 and onwards highlighting the inception of digital Bangladesh vision," he said.

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