

IBFB Discussion Session on

“Industrial Growth and the Role of Financial Institutions”

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Industrial Growth and Role of Financial Institutions

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IBFB

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INTRODUCTION

- Industrialization is playing a vital role to expedite development.
- Faced with the challenges of the free market economy and globalization, the private ownership and management of industrial enterprises emerges as one of the major guiding forces in achieving economic growth.
- **In FY 2005-06, the contribution of the industry sector to real GDP is 29.01% while it was 17.31% in FY 1980-81.**

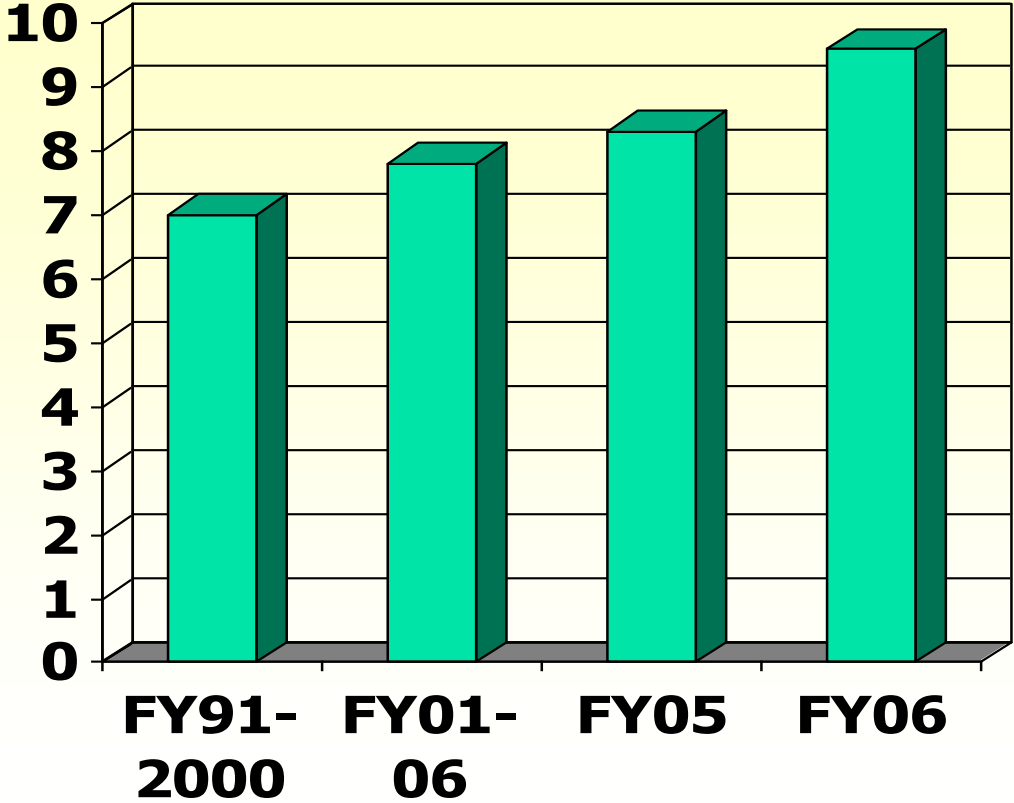


Growth Performance

Sector	FY91- FY00	FY01- FY06	FY05	FY06
Agriculture	3.2	2.8	2.2	4.5
Industry	7.0	7.8	8.3	9.6
Service	4.5	5.8	6.4	6.5

The industry sector attained 9.6% growth in FY06 and maintained continuous growth rate.

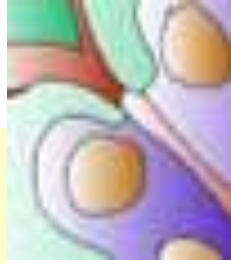
Growth Performance



■ Industry

Industrial History of Bangladesh

- ❑ The public sector started in 1972 mainly with 72 jute mills, 44 textile mills, 15 sugar mills, 2 fertilizer factories, one steel mill, one diesel engine unit and one shipbuilding yard. Moreover, after liberation, the govt. nationalised a number of private projects.
- ❑ the government finally adopted a new industrial policy in 1982, following which 1076 state-owned enterprises were handed over to private owner.
- ❑ Due to emphasised on private sector, the share of the manufacturing sector in the country's GDP rose to 11% in 1996.
- ❑ Industrialization efforts of the government during the 1990s included creation of new industrial estates, export processing zones, promotion of private investment and attraction of foreign direct investment.



Industrial Policy

- ❑ Almost at regular intervals of 4 to 6 years after 1982, the government adopted new industrial policies with increased incentives for private investors from both home and abroad.
- ❑ These policies have some common aspects as incentives to promote industrialization in rural and remote areas and to encourage entrepreneurs to use local raw materials and the efforts towards development of a system that would help in transfer of technology.



Financial System

- **Bangladesh Bank (the Central Bank)**
- **Scheduled banks**
- **Various co-operative banks**
- **Non-bank financial institutions**
- **Microfinance institutions (MFIs)**
- **Insurance companies**
- **Stock exchange**
- **Credit rating agencies**



Banking System

- **The banking sector of Bangladesh comprises of four categories of scheduled banks.**
- **These are:**
 - ➔ **4 nationalized commercial banks (NCBs)**
 - ➔ **5 government owned specialised banks (SBs)**
 - ➔ **30 private commercial banks (PCBs)**
 - ➔ **and 9 foreign commercial banks (FCBs).**



Industrial Investment Status (by banking system)

(Tk. in crore)

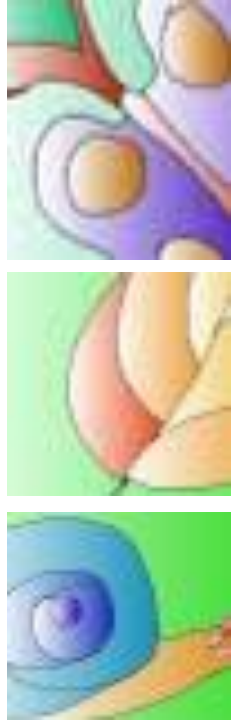
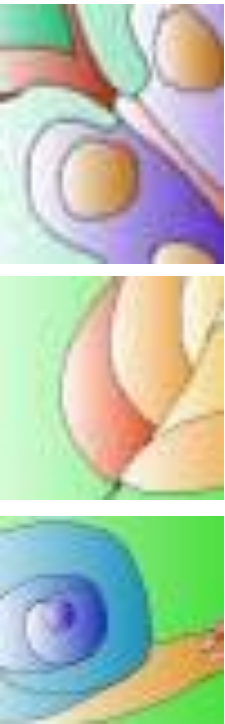
FY	Working Capital	Term Loan	Total	Growth rate (%)
1995-96	3675.69	1230.44	4906.13	0.00
1996-97	6179.75	1200.00	8179.75	66.73
1997-98	6599.03	1120.34	7711.37	-5.73
1998-99	7904.49	1330.10	9235.59	20.00
1999-2000	10681.74	1627.26	12309.00	33.28
2000-2001	13382.19	3057.07	16439.46	33.55
2001-2002	13765.12	3505.15	17270.27	5.05
2002-2003	15671.46	3961.99	19633.45	13.68
2003-2004	18703.10	6675.99	25379.09	29.26
2004-2005	22175.78	8704.52	30880.30	21.68
2005-2006	28553.74	9419.03	37972.77	22.97

Credit Market Structure

Credit Institutions	2001	2002	2003	2004	2005
NCBs	51.23	46.28	47.30	43.16	39.33
SBs	17.74	17.83	14.26	12.78	9.94
PCBs	20.79	26.60	27.72	33.68	43.63
FCBs	3.44	2.98	3.83	3.56	3.94

Credit Market Structure

- Industrial term credit market structure shows the share of different banks in total industrial term loans extended by all the banks.
- In 2000-01, the NCBs had a share of 51.2 percent, and declined significantly to 39.3 percent in 2004-05.
- The lost ground has been captured by the PCBs.
- PCBs' share in industrial term credit market has increased to 43.6 percent from 20.8 percent.
- The specialised development banks for lack of fund have also lost the ground.



Domestic Credit to the Private Industrial Sector

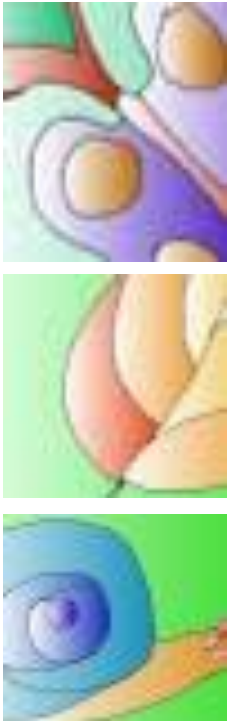
Year	% of GDP
FY01	26.34
FY02	28.54
FY03	28.36
FY04	29.76
FY05	31.12
FY06	31.47

Findings

- The role of Financial Institutions to Industrialization is increasing day by day.
- The importance of the financial system in facilitating economic growth and development has long been accepted.
- Banks and other financial institutions have a key role to play in the efficient allocation of resources that make rapid growth possible.
- The financial sector of Bangladesh is getting broader and deeper and sharing a positive relationship with economic activities overtime.

Bangladesh Shilpa Rin Sangstha (BSRS) and Bangladesh Shilpa Bank (BSB)

- ❑ To provide credit facilities and other assistance to broaden the investment base in Bangladesh, BSRS and BSB established in the year of 1972.
- ❑ As pioneer Institutions BSRS and BSB played a vital role to build up industrial base and to create 1st generation of entrepreneurs.



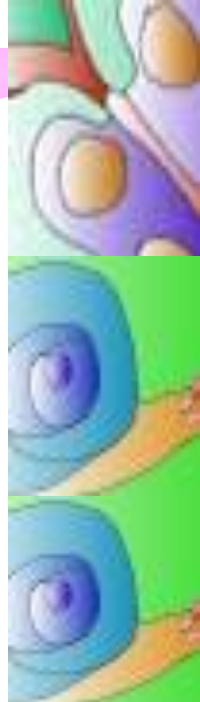
Prominent projects of BSRS

- **Beximco Pharmaceuticals Ltd.**
- **Acme Laboratories Ltd.**
- **Dhaka Sheraton Hotel**
- **Hotel Agrabad**
- **Monno Ceramics Ltd.**
- **Bengal Fine Ceramics Ltd.**
- **Tabani Beverage**
- **Ashraf Textile Mills Ltd.**
- **Saiham Textile Mills Ltd.**



Prominent projects of BSB

- **Kader Synthetic Fibers Ltd.**
- **Medinova Medical Services Ltd.**
- **Naheed Cotton Mills Ltd.**
- **Hotel Purbani International**
- **Modhumita Cinama Ltd.**
- **Rangpur Foundry Ltd.**
- **Prime Textile**
- **Tallu Spinning Mills Ltd.**
- **Central Hospital Ltd.**



Financial Service

- **To co-opt with the changing situation and to expedite the industrialization process the banking sector are giving importance to the following aspects:**
 - ▶ **Banking Reforms**
 - ▶ **Information Technology**
 - ▶ **Human Resources**
 - ▶ **Corporate Governance**
 - ▶ **Credit Risk Management**
 - ▶ **Asset Liability Management**

What needs to be done

- ❑ **To vibrant NCBs & DFIs, govt should take positive step (corporatization or privatization or merger) as early as possible;**
- ❑ **Regulatory framework should more dynamic;**
- ❑ **Grater autonomy to the Board;**
- ❑ **Greater emphasis on professional competence of the Board members;**
- ❑ **Extensive use of IT;**
- ❑ **Greater attention to risk management system;**
- ❑ **Non Performing Loan (NPL) should be treated delicate way.**



Conclusion

- Industrial growth will play a pioneer role to implement the PRSP, though other aspects also effects the industrial growth. In this purpose we have to ensured-
 - ➔ Vibrant and sustainable govt. policy;
 - ➔ Dynamic regulatory body;
 - ➔ Political stability;
 - ➔ Free from political interference;
 - ➔ Good legal frame work;
 - ➔ Adequate infra-structure.



Thank You