



## MARKET DEVELOPMENT FORUM: PARTNERING FOR LEATHER SECTOR DEVELOPMENT

*Speech of Dr. Atiur Rahman Governor, Bangladesh Bank*

Bismillahir Rahmanir Rahim

Mr. Chair person,

Hon'ble Chief Guest, Lt. Col (Rtd.) Md. Faruk Khan,  
Minister for Commerce,  
Government of the People's Republic of Bangladesh.  
The Acting Director, ITC-Geneva, Mr. Williem Van der Geest,  
Distinguished Guests,  
Ladies & Gentlemen.

I am so much delighted to be present here on the function of MARKET DEVELOPMENT FORUM: PARTNERING FOR LEATHER SECTOR DEVELOPMENT.

I am familiar with the activities of BLSC project, particularly with its finance component because of my association with the project for the last 3 years as voluntary adviser. You are aware that the overall objective of ITC-BLSC project is to increase export of footwear and leather products and consequent employment generation. On the other hand, objective of its finance component is to arrange access to collateral free finance from banks for the target group consisting of Small and Micro Enterprises and of course artisans that remained underprivileged in terms of receiving credit from banks and financial institutions.

BLSC project has committed itself to develop a dedicated credit line (DCL) in a pilot project as conceptualized by ITC-Geneva with funding from the Government of Italy. The banks who agreed to make collateral free finance to develop DCL, asked for certain technical information and credit information on the target group of enterprises of the pilot project. In response, LSBPC provided them the required information based on the findings of a Baseline Survey (BLS) conducted in the first quarter of last year under my supervision with funding from Abdul Monem Foundation and manpower support from Sonali Bank Limited, Janata Bank Limited and. Asset Management Limited

In September, 2008 Mutual Trust Bank Limited (MTBL) sanctioned collateral free wholesale credit lines for a total of Taka 10 million to SDI at 7% interest against Bangladesh Bank's refinancing scheme. SDI, a micro finance institution (MFI), allowed collateral free retail working capital loan upto Taka 500,000/- to the Small Enterprises of BLSC's pilot project at 12% interest. SDI could not allow micro credit as there is no micro borrower or artisan in the pilot project. BLSC extended its support services to the client enterprises. The recovery rate of these collateral free supervised working capital loans has been 100%.

I would congratulate MTBL, particularly its former Managing Director Mr KM Shafiqur Rahman for playing a pioneering role in extending credit lines. The experience of joint financing by MTBL-SDI shows that only the banks are eligible to provide small credit as its size is Taka 200,000/- to Taka 5.00 million. They have the expertise and resources needed

to meet all the financial requirements. They can directly finance small enterprises at market price without intervention of micro finance institution.

I am very happy that in September, 2009 South East Bank Limited has joined hands with the project and sanctioned a credit line of Taka 20 million at an interest rate of 12% under Bangladesh Banks refinancing scheme for – (i) collateral free working capital loan to the target group, (ii) capital machinery loans and (iii) Credit line for setting up of Common Facility Centres. The bank will also extend support services that include (a) Contribution of 2% interest out of 12% charged interest for poverty alleviation of the underprivileged workers, (b) Introduction of Workers' Savings Scheme and (c) Developing and updating of BLSC's database etc

While making credit investigation and review by SDI, BLSC and ITC's National Consultant, Trade Finance it was revealed that the rented factories are highly congested, located in polluted environment without required ventilation and lighting. Hazardous machines and chemicals are handled and used without safety measures. It has been decided to arrange immediate shifting of factories of SDI's client enterprises in a suitable building before disbursement of loans under the credit line of SEBL.

I am happy to learn that around this time Janata Bank Limited has come forward and joined this project with a credit line of Taka 70 million. This credit line comprised of commercial house building loans of Tk. 4.00 million for shifting of SDI's client enterprises to suitable locations with modern facilities and Taka 30 million for financing the enterprises of the Pilot Project including the enterprises of the graduates of the Bangladesh College of Leather Technology. The line of credit will also include **Linkage Finance Programme** to ensure better sells of products and secured loan repayments. JBL is also expected to provide a grant of Taka 6.00 million from its CSR fund which will be utilized for addressing the compliance issues, safety measures, motivational works, dissemination of information etc.

I once again congratulate Mutual Trust Bank Limited, Southeast Bank Limited and Janata Bank Limited for coming forward with credit packages that include all the possible supports needed for the pilot project including addressing certain national priority issues like poverty alleviation. Addressing of so many complicated issues of the underprivileged sub-sector through credit lines of Banks is unprecedented in the history of our commercial banks. I would request you to continue your united efforts and work in close cooperation with each other so that a model project is in place at the end of the project period for subsequent replication in other places.

In the recent past our export earnings from **footwear sub-sector** and from **finished and crust leather** has progressed substantially and surpassed all previous records. In July 2008 to June 2009 exports of **footwear** increased to US\$ 186.93 million, **finished and crust leather** to US\$ 177.32 million and leather goods to US\$ 16.89 million. This is very encouraging in the back drop of huge bad loans in the leather sector (bad loan is Taka 831 crore out of total loan of Taka 1695 crore).

## **Linkage finance**

In this context I will be happy to see that large and medium enterprises would come forward to further develop a vibrant partnership with small and micro enterprises so that a Linkage Finance Program can be introduced for mutual benefits of all the enterprises. Mr. Mohammad Hossain, National Consultant, TIC has played a critical role in developing the dedicated credit line, special credit packages and the linkage finance programme. I will appreciate if the banks, business partners and other concerned work with him more closely

I am happy to know that the local and international technical experts have already identified needs of this sector in yesterday's 4 technical sessions. I am confident that international development partners will provide necessary support, both financial and technical, to address the issues identified by the experts.

Ladies and Gentlemen:

You are that Bangladesh Bank has been allowing rediscounting facilities to the financing banks. I assure you that Bangladesh Bank will continue to extend all possible support to this type of innovative projects aimed at developing dedicated credit line for increase of exports by small and micro producers which will help generate employment and alleviate poverty through joint efforts of our Commercial Banks.

In conclusion I would like to thank Market Development Forum, Poverty Reduction by Increasing Competitiveness of Enterprises (PRICE) of USAID, Bangladesh Leather Service Centre (BLSC) and Leather Sector Business Promotion Council (LSBPC) for organizing this crucial and timely meeting of the international development partners.

Thank you all for your kind attention.

Dr Atiur Rahman  
Governor, Bangladesh Bank