



## Alternative Investment to Stimulate Growth

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Our economy is based on bank finance. It has been practice over long period of time since we got independence. As per Bangladesh Bank data we have six state owned banks, two specialized banks, nine foreign banks and forty commercial banks and six non-schedule Banks in our country. Hence, our economy is well paced with banking system. In last couple of years, government has approved a few new banks to operate. As a result the market is now highly competitive for the banking sector to survive. On the other hand a few new banks are on the pipeline to get approval.

In this backdrop our overall investment into the productive sector should have been high. In reality, however, we found that roughly taka three lac crore has been remain idle in the banking system. What we can realize that our banking system, at present, is unable to play active role to pace up our economy. It is more surprising that bank's lending rate has come down to single digit but yet there is stagnant in investment into productive sector. On the other hand, there are many young educated entrepreneurs of having new ideas of high-tech cannot start off their business because of finance. Our banks will not finance these young entrepreneurs because they cannot give collateral against loan.

Let's talk about collateral against which banks are providing finance to the entrepreneurs and potential business. For decade banks failed to collect their lending amount through collateral. The reason is that collateral assets were overpriced at the time of sanctioning loan. There is fraudulent practice as well in relation to collateral assets. Another problem is liquidation of these collateral assets due to cumbersome legal procedures. Our state owned Sonali Bank, for example, has written off tk. 5582 crore loan from 2012 to 2016, of which only 9.56% has been recovered.

In our country, another malpractice is loan default. Thousands of crore taka has been plundered from the state owned banks through shady schemes. As of today seventy-two thousand crore taka is loan default. In the first three months of 2017, i.e. January to March, loan default is 4.7 thousand crore. Instead of taking action, government is paying off this loan default amount from tax payer's money by injecting the amount as capital deficit. Now reality is that thousands of crore taka will be swindled and it will be replenished by hard earning money of tax payers. As per proposed budget for 2017-18 government has allocated 2000 crore taka for capital deficit of state owned banks and since 2009 government has replenished Tk. 14,505 crore for recapitalization.

In the proposed budget of 2017-18 our honorable finance minister mentioned about Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015 that will help start-ups companies. Under this law, private equity fund or a venture capital fund will be registered with Bangladesh Securities and Exchange Commission to finance start-ups companies. It is really good initiatives by the government so that new entrepreneur will be encouraged and economy will move faster. The objective of this law is to finance entrepreneurs who have potential ideas but not having enough money to start off new business. However, the harsh reality is that after enactment of the rules, our commercial banks did not show any interest to invest in the private equity fund or venture capital fund. Now question arise: is our bank creating and supporting new entrepreneurs? In one side, banks have huge idle money and bankers are afraid of investing due to loan-defaulting practice and in another side, banks do not invest in private equity fund or venture capital fund that will encourage new entrepreneurs who really have potential ideas.

In the last 30 years, the World has been drastically changed at the advent of start-ups companies financed by Venture Capital. Microsoft, FedEx, Google, Intel, Amazon, Facebook were financed at their initial stage by Venture Capital. Most of the IT companies are financed by venture capital because these companies did not have collateral to get finance from Banks. In USA, venture capital plays tremendous roles and helps to pace up knowledge based economy which is touching almost everybody around the World.

In our neighboring country India, venture capital was started from 1990s. Now venture capital is flourishing in India with national and international financial companies. Earlier venture capital was started in India with commercial bank and financial institutions. Now there are many venture capital companies to support growth oriented business that deal in information technology, manufacturing products. Flipkart, an e-commerce company, has been financed by venture capital in India in 2009. Now it is the biggest e-commerce company in India.

Venture Capital helps to finance new and rapidly growing companies, purchase equity securities, assist in the development of new products or services, add value to the company through active participation, and take higher risks with the expectation of higher rewards. In essence, the venture capitalist buys a stake in an entrepreneur's idea, nurtures it for a short period of time, and then exits with the help of an investment banker.

Our financial market is yet to develop. In USA, economy is based on capital market with having various way of financing to the entrepreneurs. The more the entrepreneurs are, the better it is for the employment and economic growth. In order to pace up our economy we need to have inclusive financial market that will tap our huge demographic dividend to steer our economy. 