

Lending curb on NCBs to hurt industrialisation: Bol

SARWAR A CHOWDHURY

The lending restrictions on the nationalised commercial banks (NCBs) will hurt industrialisation in Bangladesh, said a proposal of the Board of Investment (BoI).

The central bank has recently signed memorandum of understandings (MoUs) with the NCBs limiting their lending authority to only five per cent of their paid-up capital.

For this restriction, industrialisation in Bangladesh will be hindered, Bol said in its proposal to the government titled "Investment Friendly Lending Policy".

The lending limit on the NCBs is likely to hurt overall economic growth targets and the banks will not be able to grow with the market forces, the proposal said.

The Bol said under the restric-

tion, Sonali Bank will have the capacity to lend Tk 16.35 crore to a single project, Janata Bank Tk 12.96 crore, Agrani Bank Tk 12.40 crore and Rupali Bank Tk 8 crore.

"So, a four-bank consortium will only be able to lend Tk 49.71 crore for a single project whereas project cost of a composite textile mill is approximately Tk 300 crore and on a 65:35 debt-equity ratio basis, the required amount of debt is Tk 195 crore," the proposal said.

Under the present lending system, an entrepreneur will require at least a 20-bank consortium to finance a composite textile project. The Bol finds arrangements of such loans through consortium to be unrealistic since the entire process will take more than one year for completion as it would be next to impossible to have the proposals approved from the respective

boards of 20 banks.

"Instead of limiting lending on project basis, the decision could be made on group basis," the paper proposed, saying some foreign banks do not lend more than 50 per cent of their paid-up capital to a single group.

Bangladesh Bank should not play regulatory role in fixing debt-equity ratio, Bol suggested, saying the decision should be on the basis of viability of projects, banker-client relationship and market mechanism.

"Commercial banks including NCBs may be encouraged to accept reasonable equity which should not be more than 40 per cent," it said.

However, the central bank, in a reply letter to Bol, said no notice was issued on debt-equity ratio from Bangladesh Bank to the NCBs.

Entrepreneurs should be encouraged to go for fund raising through equity as bridge finance to boost private investment significantly, the Bol proposal paper said.

In this connection the paper mentioned that during late 1970s, Investment Corporation of Bangladesh (ICB) used to provide 50 per cent of the total equity as bridge finance which is then repaid with interest by the investor after raising IPO (initial public offering). "But, ICB stopped this since fiscal year 1994-95."

The system should be reintroduced to help capital formation and also to energise stock market, the Bol paper recommended.

Restriction on NCB credits to diversify lending

Janata Bank MD tells *The Daily Star*

REJAUL KARIM BYRON

Managing Director of Janata Bank Murshid Kuli Khan believes the memorandum of understandings (MoUs) signed by the nationalised commercial banks (NCBs) with the Bangladesh Bank (BB) will enforce the banks for diversification of their lending instead of loan concentration.

"The MoUs have encouraged the banks to go for large loan syndication in lieu of taking all credit risks in one shoulder," Khan said in an interview with *The Daily Star*. "This will certainly improve the risk management position of all NCBs and bring financial discipline in the money market."

The central bank has recently signed MoUs with the NCBs limiting their lending authority to only five per cent of their paid-up capital.

A senior banker who has served in various positions in the central bank and also in Krishi Bank, Khan talks about interest rate, credit control, banking reforms and the health of Janata Bank.

"It is true that the interest is still very high," Khan admits. "Huge non-performing loans, high administrative cost, higher rate of interest on term deposits are the principal reasons for the prevailing high rate of interest. However, responding to clarion call of the finance minister, Janata Bank and other NCBs have reduced the lending rate on several occasions during last two years."

He said, at present, weighted average lending rate is 11.5 per cent, which is quite tolerable. "In



Murshid Kuli Khan

case of priority sector like textile, information and communication technology (ICT) and agriculture, we extend credit at 10 per cent. For export related credit, the interest rate is as low as 7 per cent."

"We are constantly trying to cut our cost of fund as well as overhead expenses to reduce interest rates further. Interest rate to rural sector including fishing and livestock has been reduced," he added.

Asked whether he finds any problem in allowing loans and advances because of credit control, Khan said, "Not at all, because we have not reduced our credit portfolio. Bank is at liberty to allow loans and advances to a single borrower up to 5 per cent of its paid up capital, which is of course a significant

amount. While allowing advances to big groups, we can go for syndication. By and large credit control shall bring down classification, reduce NPL, strengthen recovery process."

"Furthermore, large cushion has been created due to write off of huge bad loans as per central bank's guidelines. So, there will be no shortage of fund for credit expansion."

"On the upcoming changes in the money market, Khan said, "This will create a new avenue for money market and definitely increase the liquidity flow of the market."

Without depending on the central bank, banks will be able to trade treasury bills among themselves to meet their liquidity requirements, Khan pointed out.

In this context, Janata Bank has already applied for the primary dealership, so that it can sell and purchase treasury bills on behalf of their customers.

"Electronic registry with Central Depository Bangladesh Limited (CDBL) has already been installed. A full-fledged fund management department is now under operation to manage our treasury," he said.

Regarding the reforms, Khan observed, "Much has been talked about on-going banking reforms. But I am confident that this will bring good at the end of the day. The credit risk management of NCBs, the major player in the financial market, will be improved."

"Instead of loan concentration in few hands, diversification of loans to the priority sectors like agro-based

industries, SME and micro-enterprises will be the right step. Reduction of bank interest rate will definitely help our industries to be competitive."

Describing the health of Janata Bank, he said the bank is incessantly trying to uphold its image as a progressive and elevated service industry.

"In the last two years, Janata Bank has made remarkable success. Operating profit in June 2001 was only 50 million taka, which rose to 350 million taka in June 2002 and further increased to 960 million taka in June 2003. This was possible because of improved fund management, foreign exchange operation and cost control," Khan noted.

"We are expecting operating profit will rise to the tune of Tk 2 billion plus at the end of current year. Classified loans will be brought down to below 20 per cent. If we can achieve that it will be a tremendous success on the part of a NCB."

Lending strategies have been re-defined with special emphasis to agro-based industries, SME and micro-enterprises, the managing director said.

Janata Bank has also extended its area of participation in many other fields, which include special credit scheme for software developing, computer business and cyber café; women entrepreneurs financing scheme; goat rearing project; and scheme for horticulture.



PHOTO: STAR

A child cuts ribbon to formally open the Dhanmondi outlet of chain superstore PQS in Dhaka yesterday. Among others, Prime Bank Managing Director Shah Md Nurul Alam and SMA Haroon Sohel of the PQS were present during the inauguration.

CityCell Service in Khulna

CityCell digital has launched its service in the southern part of the country.

A meeting of dealers and distributors of South Zone was arranged in Khulna recently, says a press release.

CityCell network is available now in Khulna, Bagherhat, Mongla, Satkhira, Benapole, Noapara, Jessore, Kushtia, Jhenidah, Magura, and Navaron.

Operation Barisal will also start shortly.

Currently CityCell service is available in 48 districts of the country.

A special package was also launched for the subscribers of the zone for a limited period.

Ananda Kumar Chatterjee, VP, Nishat Ali Khan, AVP, and Farhad Alam, AVP, of Pacific Bangladesh Telecom Limited (PBT) were present at the meeting.

US jobless claims rise

REUTERS, Washington

Fresh economic data released Thursday suggests a quickening in the pace of the US recovery, but a rise in applications for jobless benefits showed the economy is not yet firming on all cylinders.

Initial claims for unemployment aid rose unexpectedly last week, climbing back above the 400,000 level economists view as dividing improvement from deterioration in the jobs market, a Labor Department report showed.

But other reports underscored the economy's brightening outlook. A private-sector group said the giant US services sector grew rapidly last month, while government data showed orders for manufactured goods rose more than expected in July.

While economists have been heartened by mounting signs the economy is gathering strength, a weak labor market continues to show the recovery is not yet out of the woods.

US threatens to pursue own agenda if WTO talks fail

AFP, Washington

The United States threatened Thursday to go it alone by seeking one-on-one trade pacts if the world fails to overcome a logjam and secure a free-trade deal by January 1, 2005.

World Trade Organization ministers are preparing for a September 10 to 14 conference in Cancun, Mexico to salvage the negotiations, bogged down by deep-seated disputes, especially over farm trade.

US Trade Representative Robert Zoellick said Washington was prepared to pursue its own free-trade agenda if the WTO proved unable to do its job.

President George W. Bush was committed to free trade, he said, noting that Bush had signed legislation Wednesday to implement free

trade deals with Chile and Singapore.

"We will find countries that want to open up markets with the United States," Zoellick told a conference here.

"I hope they will be in the WTO. But if they are not, we are not stopping. We are moving with the countries that are willing to go," he warned.

His opposite number in Europe, European Trade Commissioner Pascal Lamy, speaking via satellite, said a failure to complete the agenda, launched in Doha, Qatar in November 2001, would have economic repercussions.

"Cancun is a mid-term review and the big decision down there is whether or not we have done 50 percent of the road so that we are confident enough that with a big

push we can do the remaining 50 percent by the end of next year," Lamy said.

"If we say we can do that and we do it, it is terribly good news for the world economy," he said.

But "if we say we can do it and we cannot do it at the end of the day, it is going to be bad news for the world economy and for the world trading system."

Zoellick and Lamy broadly agreed that goals in Cancun would be:

-- To develop a framework for negotiations in agriculture, goods and services, without putting in the exact figures for subsidies or tariff cuts.

ASEAN close to single market

AFP, Phnom Penh

Southeast Asian trade ministers this week wrapped up talks in the Cambodian capital a step closer to forging a single market and confident poor nations will be heard in upcoming WTO talks.

The Association of Southeast Asian Nations (ASEAN) ministers left Phnom Penh after paying a courtesy visit late Thursday on King Norodom Sihanouk, whose country hosted the ministerial meetings ahead of its official induction into the World Trade Organization (WTO) next week.

The ministers vowed to protect the interests of developing nations going into the WTO talks in Cancun and pledged support for Australia's

fight to dismantle barriers in agricultural trade.

They underscored the importance of moving forward with the mandate of the Doha round two years ago, when trade ministers from around the world agreed to phase out export subsidies in agriculture.

Negotiations over the issue have stalled however, and ASEAN ministers said they hope the Cancun meeting will serve the needs of the developing nations.

Filipino trade secretary Manuel Boxas told AFP in an earlier interview on the sidelines of the meeting that "we discussed particularly the very important areas in agriculture and non-agriculture market access."

A key development during the meeting was an alliance ASEAN struck with Australia, who as a member of the pro-farm reform Cairns Group of countries, has threatened to walk out of the WTO talks if no real substantive progress is made.

"All we seek is the implementation of the mandate that came out of Doha. That is, that there are no other issues to be brought in on the agenda that weren't agreed to in Doha," Australian Trade Minister Mark Vaile said.

ASEAN in response said members agreed that the Cancun talks should focus on "how best to ensure a successful conference and keep the Doha round negotiations on track."

Bush defends economic policy

REUTERS, Kansas City

President George W. Bush Thursday launched a vigorous defense of his economic policies, firing back at Democrats who say his tax cuts failed to spur job growth and have bloated the budget deficit.

Without mentioning anyone by name, Bush criticized those -- such as Democratic presidential contender Howard Dean -- who have said they would roll back his tax cuts. His comments offered a glimpse of how he plans to deal with attacks on his economic record during the 2004 re-election campaign.

"It's nobody's fault," Bush told CNBC in an interview when pressed about the record deficit.

Bush has pushed through three tax-cut packages in his 2-1/2 years in the White House and made them the centerpiece of his economic agenda.

"Had we not taken action, this economy would have been in a deeper recession. It would have been longer and as many as 1.5 million Americans who went to work this morning would have been out of a job," Bush said in a speech in Kansas City.

"Instead, because we did act, the recession was one of the shallowest

in modern economic history," he said.

Bush told CNBC that he was "much more optimistic today than I was a year ago" about the nation's job-creating prospects.

"Rather than quantifying the numbers, all I want to do is create the conditions necessary so that all eligible people can find work," Bush said.

The US economy slid into recession in March 2001. Although the downturn officially ended in November 2001, economic growth last year and in the first half of this year has been extremely weak and job losses have continued.

Adoption of International Accounting Standard No 17

Towards greater financial transparency

ADEEB H. KHAN

The Institute of Chartered Accountants of Bangladesh (ICAB) has done a great job by adopting International Accounting Standard No.17: Accounting for leases (IAS 17) recently. Bangladesh Leasing & Finance Companies Association (BLFCA) deserves much praise for supporting adoption of this standard, in spite of the challenges it will pose for the leasing industry in Bangladesh. It speaks volumes for the Association and ICAB's commitment towards aligning Bangladesh with best international practice.

It would perhaps be best to explain the features of this standard with a simple example. Say there are two companies, Loan Ltd and Lease Ltd, both with identical assets, liabilities, revenues and expenses. Both decide to invest in an identical new machine. Loan Ltd decides to borrow the money from a bank, repayable

over five years, and purchase the machine with that money. Lease Ltd decides to go to a leasing company to finance the machine with a five-year lease. The leasing company will purchase the machine from the vendor and lease it to Lease Ltd. Lease Ltd will pay lease rental to the leasing company for five years, after which it has the option to purchase the machine from the leasing company at a nominal cost.

Under current accounting practices in Bangladesh, Loan Ltd is required to show both the machine and the corresponding liability on its balance sheet. However, Lease Ltd is neither required to show the asset, nor the financial commitment (which, for all practical purposes, is a loan) on its balance sheet. As a result, if both companies make equally efficient use of the machine, Lease Ltd will show better liquidity, lower borrowings, better asset turnover ratio and better return on assets

employed than Loan Ltd, even though one is no better than the other.

All of the above is currently possible as Bangladesh follows the legal form of lease transactions, rather than the substance. As the asset is owned by the leasing company, and as Lease Ltd has not received the loan money, the asset and the corresponding liability will be excluded from its balance sheet. With introduction of IAS 17 in Bangladesh, accounting for lease transactions will be based on substance, rather than the legal form of the transaction. Our neighbours like India, Pakistan and Sri Lanka already follow IAS 17 principles, as is done by regional countries like Malaysia and Indonesia. Nearly all advanced economies, whether in this region or not, have been following IAS 17, or its local equivalent, for many years.

Under IAS 17, lease contracts can be of two types: finance lease and

operating lease. In a nutshell, if the present value of future lease payments is substantially equal to the purchase price of the asset, or if the lessee has the option to purchase the asset at the end of the lease period at a price below the market value, or if the lease term is for most of the useful economic life of the asset, that lease contract will be a finance lease. Operating lease is any lease which is not a finance lease. According to IAS 17, financing an asset with a finance lease is no different from financing it with an interest bearing loan: both give a company the right to use an asset in return for periodic payments to a financing company for a predetermined duration. Both carry a finance cost, i.e., interest.

Following the principles of IAS 17, legal ownership of the asset is irrelevant in deciding the accounting treatment, and assets financed by finance leases must appear on the balance sheet of the borrower, along

with an equal amount shown as a liability on its balance sheet. As it will rank equally with all purchased assets of the borrower, the leased asset will also have to be depreciated by the borrower, following existing accounting principles applicable in Bangladesh. Operating lease transactions will be accounted for as is done now for all leases in Bangladesh. IAS 17 becomes effective for financial period beginning on or after 1st January 2004. It is equally applicable for all companies listed and unlisted, lessee and lessor - reporting under Bangladesh Accounting Standards.

It is worth noting that if an analysis is carried out of all current lease contracts in Bangladesh, it is very likely that the vast majority of them will be found to be of finance lease category. The effect of ICAB's decision to adopt this standard is thus indeed very widespread.

It is really the lessee whose financial statements will bear most of

the direct impact of this standard; for the leasing company, it will primarily involve a reclassification of the asset from a fixed lease asset to a receivable. With the introduction of IAS 17, an easy technique for off balance sheet financing will no longer be available in Bangladesh. The lenders and investors will however get a more transparent view of the financial position of a company. IAS 17 may be less than popular with some borrowers, but it is a major step towards truer and fairer financial reporting, thus taking Bangladesh to a higher level of corporate governance. It is now up to those who prepare financial statements and the auditors, who express an opinion on them, to carry the baton and ensure its implementation.

The author is a partner of Rahman Rahman Huq, Chartered Accountants.

Japan businesses urge China to ease currency peg

AFP, Tokyo

Japanese business leaders on Friday stepped up pressure on China to ease its currency peg and introduce global business standards, including protection of intellectual property rights.

The Japan Business Federation (Nippon Keidanren), the nation's most powerful business lobby, made the requests when its members had a lunch meeting with Wu Banguo, chairman of China's parliament, now on a week-long visit to Japan.

"We would like your country to take appropriate steps for (achieving) proper foreign exchange rates" reflecting the strength of the Chinese economy, the federation's chairman Hiroshi Okuda said in his speech.

Okuda, who is also chairman of Toyota Motor, called on Beijing to adjust local business regulations in line with international rules based on agreements under the World Trade Organisation (WTO).

Wu promised to speed up the introduction of new legal frameworks aimed at facilitating foreign investment and strengthening protection of the intellectual property rights of foreign companies.

The Chinese parliamentary leader, however, brushed aside Okuda's call for a review of the yuan's peg to the dollar.

Judge dismisses obesity suit against McDonald's

AFP, New York

A US federal judge Thursday dismissed a revised lawsuit against McDonald's that sought extensive damages from the fast food chain for causing obesity in children.

US District Judge Robert Sweet had initially thrown out the suit in January, but allowed the plaintiffs a second chance to back up allegations that deceptive advertising by McDonald's was to blame for making them fat.

"They have failed to remedy the defects of the initial complaint," Sweet said in dismissing the case a second time.

His decision was greeted with relief, not just by McDonald's but the fast food industry as a whole which had feared being subjected to the same sort of health litigation that has ravaged tobacco companies.