Responsibilities of NCBs in Fund Management

by Zaman Mohd Fakhru and Naser Ezaz

NO matter if it is a developed or developing country, the importance of a sound capital market is universal for economic growth. Banking plays the most vital role in capital market. In Bangladesh four Nationalised Commercial Banks (NCB) play the central role in our banking sector for their huge network as well as for large volume of deposit and advance handling. As a result the importance of NCBs in our capital market i.e. economic life is beyond question.

When talking about banking the issue that comes first is fund management. The basic philosophy of baking is to mobilize deposits from individuals and organizations and again deploying it in the form of loan and advances and for earning profit for this mediatory function. As a result fund management is basically management of liability i.e. deposits and management of assets i.e. advances.

While managing the fund, there are pressures on fund managers from depositors and investors. Depositors are not ready to compromise their convenience while a bank owner is eager for a higher rate of return. This results in conflict between liquidity and profitability. A fund manager's access depends on successful solution to this conflict.

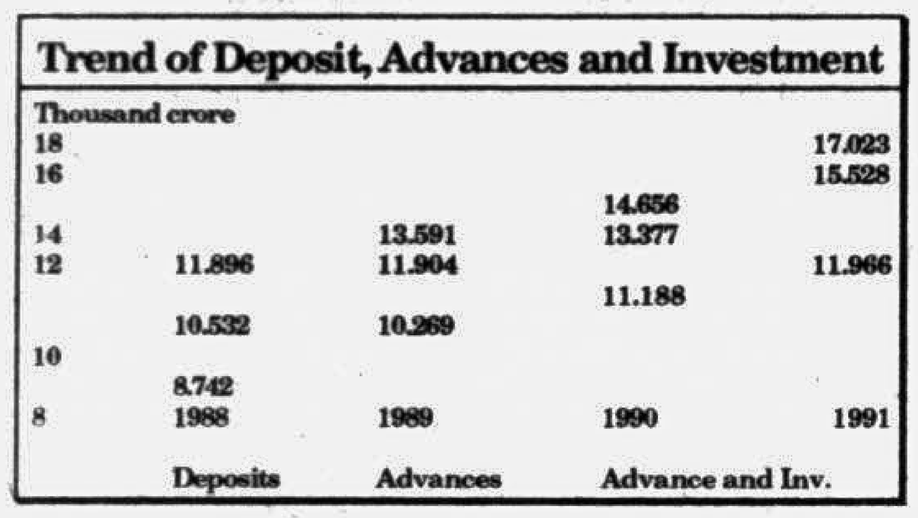
In the case of our NCBs the situation is not ideal i.e. identical to an ideal fund management. Other than the two above mentioned factors there works government's welfare motive. Interference of world bodies like the World Bank and IMF is there to make the job troublesome. Pressure from political leaders, unscrupulous bureaucrats and bankers even mustans contribute to making the job further complicated.

Fund management of a bank starts with the creation of fund. Better known as liability portfolio the main sources of fund for our NCBs are capital, deposits, call deposits, counter financing etc. Fund management problems for NCBs start right from here. Before formulation of the recent interest policy of government, the NCBs had no choice in offering interest on deposits. Government had strict guidelines in this regard. As a result a bank could find that a certain type of deposit yields high return while advanced so it could be given incentive. But they had no choice. Recently government has taken a policy for prescribing a floor and ceiling rate for NCBs and they decide their own interest rate. This is as part of government's reform in the financial sector. Still the deposit mobilization is not free from state control. Because the amount a bank can raise is limited by the operation of capital adequacy ratio which is six per cent of total deposit liability. Again government has no choice in this regard as we cannot afford any more BCI experience.

Once the fund is mobilized it needs to be deployed in a way that ensures maximum return without disturbing the depositors. The entire task of fund management is done by careful formulation of credit policy, liquidity planning and prioritization of the competing credit-scare sectors without however threatening security and safety to the funds invested. A fund management strategy can be regarded well-conceived if it can successfully relate loan policy, deposit policy, capital and investment policy so that decision of one area can successfully reinforce that of other area. The influencing factors in loan allocation are: 1) Capital Position, 2) Risk and accompanying profitability of various loans, 3) Tenure of deposits, 4) Credit environment, 5) Influence of monetary and fiscal policies, 6) Ability and experience of bank personnel to handle loan portfolio and 7) Credit needs of the area covered. As all the deposits accompany with them certain liquidity requirement these in tern determines the size of the loan portfolio. A successful fund manager keeps the exact amount of deposit in exact liquid form and invest the remaining in the way that ensures maximum return.

Now let's have a look at the management of asset portfolio in NCBs. Central Accounts Division of NCBs are responsible for fund management. Day-to-day information of deposits as well as advances and loans goes to this department and the concern fund managers try to ensure that not a single taka is left idle. In some cases banks can borrow for short term even for overnight.

Fund managers are bound to take decision despite lot of restrictions. Deployment of fund depends on central bank's policy and the policy of bank itself. Other than the restriction on liquidity maintenance, there are directives on loan sanctions. IDA loans coming through Ministry of Industry are prescribed in such a way that fund managers have very little influence on it. Counter finance is a major source of fund. But bureaucratic procedure delays the arrival of the same forcing the NCBs to liquidity crisis.



A fund manager is supposed to take decision in favour of loan that ensures maximum profit. But our NCBs are again crippled by government policy. Loan for jute trading gives 9.5 per cent interest for Sonali Bank while it is 16 per cent for an ordinary business. But a fund manager is bound to give priority to the jute loan. Here comes the conflict between profit motive and welfare. If NCBs are considered business enterprises, then they should be free in taking decision of this type.

Another example of government's unwanted interference is financing the sick industries. The nationalised and private industries having very poor repayment record are a real problem to our banking sector. Crores of taka in loans are outstanding. Again policy-makers are advocating for giving more loans. Their logic is that shortage of capital is the main reason for the failure of these industries.

A critical analysis of the sick industry issue will show that most of these industries get loans by using outside influence without allowing the lending houses to go deep into the matter. Moreover, these industries fail for lack of management capability, marketability, lack of working capital, ill-motive of the so-called entrepreneurs etc.

These industries are already overburdened with huge liability, if further money is poured the total cost of fund of the project will increase and probability of failure will also go up. As a result those sick industries which have got the scope of bearing the burden of further liability and are viable should be given a chance strictly on close supervision.

Again if we look at the ideal asset portfolio management process, we find that diversification in loan allocation is a precondition to spread the risk that associates with various kinds of loan. To the extent it is practicable banks should diversify their loan portfolio in broad areas of agriculture, commercial lending industry etc. For any band there is a certain limit of taking risk and bands try to keep the overall risk exposure within that limit. Unfortunately our NCBs very little choice for loan sanction.

It we look at the performance of our four NCBs in deposit mobilization and loan allocation, we find that their performance is very frustrating. In 1989 75 per cent of total deposit figure was advanced. This declined to 70 percent in 90. However relationship of deposits with advance and investment remained almost constant. This depicts that high interest rate on deposit is mobilizing more and more deposits but advance figures is not going up accordingly. The reason is manifold. High price of loan discourages potential lenders. Change in government, most of the of time in unpleasant ways, causes problem to entrepreneurs. Other socio-economic factors are also there. Government's step to bring discipline in financial institutions prohibits unscrupulous lenders from borrowing money from the band as a result the advance figures in NCBs are going down leaving large amount of usable money idle. Sixty-four percent of our total national deposit is at the disposal of the four NCBs while their advance is 54 per cent.

One point that needs clarification is that although the advances of NCBs are not consistent with deposit, the joint advance and investment figure is. This is because banks invest the money left in government security, treasury bills, debenture of government and semi-government organizations etc.

These give very low return; sometimes less than the cost of fund. After all banks' deposits are supposed to be advanced and failure in putting the biggest amount possible in advance causs inefficiency in fund management.

Government is aware of the problem and reducing the interest rate on loans. But so far their is no significant response from our money market. Even government is thinking of reducing the interest rate on deposits so that the ultimate price of loan goes down. However the possible negative impact on deposit mobilization is very significant.

Among all these do's and don'ts, NCBs are managing their funds. Before introduction of private sector banking, our banking was fully controlled by NCBs. There were no scope for comparing the performance of NCBs. Private sector banking is successful in Bangladesh and comparison of productivity between NCBs and private banks shows the following picture.

Sector	Public		Private
Deposit/Employee/Year	25.21 lakh		36.73 lakh
Ratio	1	:	1.47
Profit/Employee/Year	1900 Tk		32390 Tk
Ratio	1	:	17.05

Private sector banks are 47 percent more productive in deposit mobilization and 17 times productive in profit earning:

No doubt, poor fund management of NCBs is the most important reason behind the frustrating performance. But is it the only reason? No, meticulous analysis of total banking system reveals the following problems in our banking sector.

1 The banking system itself has not developed in a way it should this is because of frequent change in government policy.

2 The interest rate structure, even after all these reforms, is no harmonious with the investment environment.

3 Too much bureaucracy forces the banks to send weekly, monthly, half-yearly statement to the central bank.

4 Recovery record is very poor and recently it has gone to 30-40 per cent. High growth rate of bank income can be achieved only through higher loan recovery.

5 There is no innovation in financial instruments.

6 Non-interest income of NCBs in very low.

7 Growth rate of bank expenditure is very high.

8 Banks are not mechanised with the sophisticated technology invented.

To cope with need of the time our NCBs should consider the following steps.

1 The importance of non-interest income for banks is significant. New additions in the stock of customer service like introduction of credit cards will help the banks to earn new service charges to add to their non-interest income.

2 Cost control measures are essential to bring down band expenditure. Proper plan can reduce expenditure. For example, at present a branch sends around 200 statements which can be reduced by 50 per cent.

3 Introduction of computers and use of modern banking packages can reduce the manpower requirement.

4 Besides better fund management and portfolio management improving recycling of funds and developing other income earning business activities (non-fund) will certainly improve the productivity levels of NCBs.

In the changed context of financial sector reform which has brought new dimension the management of NCBs should undertake more in-depth exercise there ever before in loan portfolio determination. This can ensure safety of the funds as well as higher profitability, which is our national concern.

In fact our banks are passing a transition period between strict control and freedom. Once the banks are absolutely freed, our endeavour for national development will get momentum. Sincere and honest effort afford of all concerned is essential, otherwise we are not away from the crunch time. This is perhaps our last hope. Otherwise the efficiency in capital market will be a remote cry in a country where government tops the banks' defaulter list.

The contributors are MBA students of Dhaka University and the article is based on their termpaper on NCBs, prepared under Prof. Rahim Box Talukdar.

Quality Control Circles: Colombia's Experience

by Hernando Marino Navarrete

QUALITY control circles can play an important role in upgrading the quality of products sold on the international market and thereby strengthening their competitiveness. Various developing countries have begun introducing this approach to quality improvement, with positive effects on their export sales. One of these is Colombia, where this technique has been in operation for over a decade.

The methodology adopted by a number of firms in Colombia to introduce and develop quality control circles illustrates he steps involved and the requirements for effectively implementing such programmes.

How the idea developed

Ever since the first quality control circle (QCC) was set up in the Japanese Union of Scientists and Engineers in 1962, the establishment of such circles has been spreading throughout the world. The idea underlying QCCs and their operation was unknown in Colombia before the mid-1970s, when the Colombian Quality Control Association was established.

The Association began studying quality control circles and undertook study tours to other Latin American countries that had already launched such programmes, including Brazil and Mexico, as well as to the United States and Japan. In addition, Japanese lecturers were invited to Colombia to describe the experience in their country of using these circles. This exploratory process in Colombia lasted five years.

At the beginning of the 1980s several Colombian enterprises, in both the industrial and service sectors, decided to introduce formal QCC programmes in their organizations. These firms had various rationales for developing such schemes. For some, QCCs offered a means to improve the quality of their products and services.

For others, quality control circles were seen as a method to increase productivity. For yet others, the technique was a way to apply participative management principles.

These innovating companies included an export-oriented manufacturer of sports shoes; a large firm that produced printed material and also marketed office equipment such as computers and furniture; a commercial bank with a branch in Panama; a company producing vegetable fibre packaging and polystyrene; and a large foreign firm making synthetic fibres.

Objectives of the programme

An analysis of Colombia's experience shows that enterprises that introduced QCC programmes have emphasised one of the following aspects: product quality and productivity, total quality or participative management. As a result, the name of the programme in a particular firm has tended to reflect the firm's specific objectives.

If the goal is to improve the quality of products (either goods or services), the name given to the scheme is usually QCCs, productivity circles or problem-solving groups. If the emphasis is on total quality development throughout the enterprise, the usual name is a QCC programme. If the scheme's purpose is participative management, it is likely that the programme is referred to as a participation circle.

The nature of quality control circles varies depending on the firm's purpose in establishing them. In the case of QCCs that are responsible for controlling and improving the quality of the firm's products (goods or services) and thereby increasing productivity, the circle is usually a small group of employees meeting periodically at their won initiative (generally, a non-hour meeting once a week) to identify, analyze and solve problems concerning the quality of the products made in the company or in their section of the company.

The objectives are one or more of the following: control and improve product quality; achieve higher productivity levels; reduce operating costs; and produce fewer defective goods. The members of the QCCs are more familiar than anyone else in producing the product and are therefore in a good position to resolve quality problems. In this situation the QCCs are expected to produce tangible and quantifiable results.

Under the total quality approach, quality control circles generally take the form of a small group of persons working together continuously as a team to upgrade quality in order to satisfy the requirements and expectations of customers (both internal and external). Management may seek to incorporate these circles into the enterprise's overall quality-control process, as a means to improve the skills of staff at all levels (top management, middle management and the workforce) and thus upgrade quality in the broadest sense in the company.

A participative circle is usually a small group of persons working in a specific part of a company who meet from time to time to analyze difficulties encountered in the work place and propose solutions to them.

Various developing countries have introduced this approach to quality improvement

The objectives of such circles may include: application of participative management principles, development of a work climate that provides challenges and motivation, integration of staff in the firm, promotion of a team spirit and enhancement of the status of the individual. The results sought through the establishment of quality control circles are above all therefore usually of an intangible nature.

Stages in developing a scheme

QCC programmes are usually implemented in a series of stages that form part of a long-term process. Each includes activities that have to be completed and raises critical problem that have to be resolved before the next can be started.

The five stages usually included in a QCC programme are initiation, pilot plan, expansion, growth and maturity, which are described below.

Initiation: During this stage enterprises concentrate on collecting background information on QCC programmes, visit other firms that have already launched such schemes and organise courses for top management to determine what the programme is intended to achieve. In this phase the policy underlying the programme has to be defined and a pragmatic but realistic action framework has to be established. Decisions also have to be taken on how the programme will be carried out over the long term. It usually takes companies one year to complete this stage.

Pilot plan: During this second stage the programme is tested on a small scale (with one or two pilot circles) to evaluate the policies laid down in the first phase, overcome any initial difficulties in starting the pilot circles and adopt an approach for developing the programme on a broader scale. Activities characteristic of this stage include selecting the area or areas in which the pilot circles are to operate and organising training for the future leaders of the QCCs (both the pilot circles and the subsequent circles). It is also necessary to acquire or develop relevant training materials at this point.

During this stage as ad hoc executive coordinating committee should be set up with links to the pilot circles. This structure, which is parallel to he firm's overall organisational structure, offers an effective means of promoting the pilot stage. An ongoing evaluation system should also be designed to identify any obstacles encountered in developing the pilot circles so that appropriate action can be taken to overcome them. This stage comes to an end when each pilot circle submits a draft report to the programme's executive coordinating committee summarising its activities, any problems faced and recommended solutions.

Colombian enterprises have required an average of one year to complete this stage, although some have taken up to two years.

Expansion: The expansion stage is based on the assumption that the entire workforce is able to participate in the QCC programme. The main activities undertaken during this stage are to:

1. Disseminate information about the programme to all of the staff to promote the programme. Means such as publications, videos and meetings can be used to describe the purpose of the programme, its operation, a summary of the results so far achieved within the organisation and examples of the experience of other firms.

2. Recruit and train persons responsible for carrying out the programme — the circle leaders and members. These functions should be undertaken on a voluntary basis. The firm should implement the expansion stage using its own staff — it should not have to seek the assistance of external consultants. The knowledge and experience acquired during the previous stages, together with in-house teaching materials, should be sufficient to provide adequate training for circle leaders and members.

The experience of Colombian firms illustrates some of the key considerations during this stage:

a. The trade union should be fully informed about the programme. This is important because it must be made clear that the programme is not intended to replace any trade union activity. For this reason QCCs do not deal with the questions of wages or promotions, for example.

b. The entire company and in particular is middle management should fully support the programme. A frequent error is to regard the QCC scheme as the exclusive domain of a particular department in the firm or a specific group of persons in the company. Staff should understand that the development of circles during the expansion stage is in the interest of all.

c. Management style should be adapted to the concept of worker participation underlying the idea of quality circles. Experience shows that the programme can be most successfully expanded if company managers encourage constructive criticism by their subordinates and seek their advice.

d. Responsibility has to be delegated for developing circles in various areas of the firm.

The expansion stage usually lasts for a minimum of two years in a medium-size firm and up to five years in a larger one. It is the stage that presents the greatest difficulties and the one that demands a considerable amount of patience and determination.

Growth: The main feature of the growth stage is the continuing activity of dozens or even hundreds of circles in the firm that, during the course of a year, may often submit proposals for solving quality problems and for improving work methods. Management should therefore devote adequate time and effort to examining such proposals, allocating the necessary resources so that the QCCs may carry out the suggested improvements.

Maturity: The final stage in implementing a QCC programme is that of maturity. In this stage the firm should not only undertake the QCC programme at the base but also backstop it at other organisational levels. The vital tasks at this point are to improve the existing training for the programme and ensure the acceptance of the programme.

Though must be given to providing incentives and rewards for the successful work of the circles. (Most companies do not, however, give economic benefits to their circles, although they do acknowledge in various ways the contributions made).

An enterprise that has clearly achieved success with the programme. It can at this juncture consider other questions, such as extending the programme in other directions, for instance by having the circles work with the firm's suppliers and distributors.

— World Trade Forum

Foreign Investment in India on Rise

THE infrastructure sector in India is no more closeted against private investments. In a bold policy initiative, the government of India has allowed private parties, including foreign ones, to invest in it.

Apart from liberalisation, the government had to open up the capital-intensive infrastructure sector due to the resource crunch. Investors are lining up enthusiastically to share the benefits in an investment-friendly climate.

Private capital, particularly foreign, the government believes, will usher in state-of-the-art-technology in steel, coal, power, oil exploration and telecommunications — all open to private investors — thereby improving the lives of the people.

Private investors will also get the opportunity to take part in the social development of India, which is out to make its mark in the global market after the liberalisation drive launched a year ago. The government, in its keenness to make investments profitable for foreign entrepreneurs, has also allowed 100 per cent equity in certain segments of the sector. This is particularly true of power, where India needs foreign and private capital to meet the growing needs of a developing society. Curbs on repatriation of profits have been lifted, ensuring larger profit margins in business ventures.

The telecommunications segment has witnessed a surge of foreign investment proposals. After petroleum was opened up for foreign and private parties, telecommunications is the second-most profitable field for investors.

Big names in the international telecommunications industry, like Ericsson, Alcatel CIT, Fujitsu, NEC, Singapore Telecom and Hutchison Telecom of Hong Kong, are vying for a place in the Indian market. Some also have Indian collaborators. Moreover, many Indian industrialists wanting a stake in the Indian telecommunications market have joined hands with foreign firms to improve their prospects.

The competition in the placing of tenders for the manufacture of cellular telephones indicates how lucrative this segment is considered by investors. The Department of Telecommunications (DoT) has invited tenders for services ranging from digital exchanges and microwave systems to franchises for cellular operations in the four metropolitan cities and for paging in 28 other cities. It has also asked for E-Mail, Videotext, Voice Mail and any other services an applicant might consider viable.

DoT has also announced plans for an additional 7.5 million lines to the existing 5.8 million before the end of the Eighth Plan. It also aims to install 20 million lines in the next eight years.

Hydrocarbon sector was earlier thrown open to private investors. Bids were invited, primarily for three refineries and the development of a few discovered oil fields. The government allows 26 per cent equity participation and the offer is on a round-the-year basis. Private and foreign investment have also been allowed in small discovered oil and gas fields on a sharing basis. The government has, to begin with, identified 28 such fields for private participation which will be offered on a collaboration basis. This is expected to bring in foreign exchange worth $ 1.3 to $ 1.9 billion.

Indian entrepreneurs have come forward to invest in this sector. The Aditya Birla Group, Reliance, Essar, Hindujas and British Gas are vying with each other to set up joint ventures with public sector oil companies like Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation. In joint ventures for the refineries, public sector units (PSUs) will have a stake of 26 per cent, the same as co-venturers. The remainder will be given to the public.

In the case of bidding for oil and natural gas exploration in India, 16 companies have entered the arena. They include Shell, Atlantic Richfield, AMOCO Albion and Pan Energy from the USA. Among Indian companies, Tatas and Hindustan Oil Exploration Corporation have entered the fray.

Power sector is also offering a higher percentage of the profits. In this sector, the government has offered 100 per cent equity, removing the condition of 51 per cent equity for foreign investors. General Electric and Enron Power Corporation of the USA, Ecolite de France and other major companies are queueing up for the necessary clearance.

Steel, earlier a state monopoly industry, has been freed of restrictive clutches and private foreign investors, like Japan's Mitsui Corporation, HW Hoogovens of the Netherlands and Butte International Systems of the USA have joined IISCO's revamp bid by putting in their tenders.

Indian coal industry does not want to be left behind. With the opening up of the coal industry, hitherto as state monopoly, the country is entering an era of total liberalisation where competitive market mechanisms will awaken India to a better tomorrow. — India Update.

Foreign investments have inspired India into numerous joint venture projects