

Low quality agri-inputs causing soil degradation

A senior agri-scientist Thursday said that the use of substandard seed, fertilizer and pesticide are causing soil degradation in the country, reports UNB.

Dr S M H Zaman, a former Planning Commission member, told the 28th council meeting of Bangladesh Agricultural Research Council (BARC) that farmers were using various low-quality imported seeds, fertilizers and insecticides without knowing their detrimental effects and proper doses.

These fertilizers and insecticides, he said, are decreasing soil nutrients and creating environmental problems. He called for enforcing strict quality control and a concrete policy in this regard to sustain

agriculture and protect environment.

Dr Zaman called on the BARC authorities to disseminate information about the utilization of much potential local technology among the people.

Agriculture Minister M. Majid-ul-Haq, who presided over the meeting at the BARC auditorium, urged the local scientists to ensure sustainable agricultural development by means of transfer of technology.

"Educate the peasants so that they can easily get the new technology which could help them increase production and strengthen economy," Haq said.

He said the new technologies evolved by the agri-scientists

need more time to reach farmers in the field and that the Department of Agri-Extension could play an important role in reaching the technologies to the doorstep of the farmers.

"Conceive the technology and reflect the research output in the cropland," the agriculture minister told the scientists.

He said the present government attaches priority to the agriculture sector that contributes 40 per cent of the economic growth and would do every thing for the development of this sector.

Referring to the achievements of the agri-scientists, he said a total 236 technologies had been identified from 1992-93 to 1993-94.

Citing Indian examples, Haq said India had achieved tremendous success in agricultural development through green revolution by ensuring its sustainability.

The council meeting reviewed the use of Agro-Ecological Zones Database for agricultural production planning.

The discussants at the meeting included Akhter Hamid Khan MP, Agriculture Secretary M Akhter Ali, Environment and Forest Secretary Abdullah Haroon Pasha, Vice-Chancellor of Bangladesh Agricultural University Prof S M Faruq, Executive Vice-Chairman of BARC Dr M Sujanullah Chowdhury, Fisheries scientist Dr Yusuf Ali, and BARC directors Abdul Awal and Dr Z Karim.

'Russian inflation to remain below 10 pc a month'

MOSCOW, May 13: Russian Acting Finance Minister Sergei Dubinin said Thursday that Russian inflation would remain below the level of 10 per cent a month for the coming months, and that the target of a monthly five to seven per cent at the end of the year was "perfectly feasible", reports AFP.

On the other hand, the plunge in industrial output this year will be "greater than initial forecasts", though the government "is keeping the goal of limiting the drop to 12 to 15 per cent" for this year is a whole.

"I recognize that this is a rather optimistic prediction," he told correspondents.

In preparing its draft budget for this year, the government put the fall at eight per cent, but very poor figures for the first quarter forced revisions.

Asian stock markets close higher

HONG KONG, May 13: Asian stock markets closed mostly higher Friday, with share prices surging in Hong Kong in reaction to the overnight rally on Wall Street, reports AP.

The Hang Seng Index, the Hong Kong market's key indicator of blue chips, rose 255.86 points, or 2.8 per cent, closing at 9,134.72. On Thursday, the index slipped 27 points.

Brokers attributed the surge to the overnight rally on Wall Street and optimism that the United States will renew China's preferential trading status this year.

Hong Kong is a major trading partner of both the United States and China.

In Tokyo, the US dollar rose against the Japanese yen while share prices closed mixed.

The dollar closed at 104.58 yen, up 0.48 yen from Thursday's close.

On the Tokyo Stock Exchange, the 225-issue Nikkei Stock Average gained

46.51 points, or 0.23 per cent, closing at 20,270.75. On Thursday, the average gained 74.11 points, or 0.37 per cent, to close at 20,224.24.

The Tokyo Stock Price Index of all issues listed on the first section was down 1.36 points, or 0.08 per cent, to 1,643.20.

Although the yen's weakness prompted index-linked arbitrage buying on the spot market and helped the Nikkei rise more than 110 points earlier in the day, profit-taking in the final 30 minutes narrowed the gains.

Wellington: New Zealand share prices closed higher in hectic trading, boosted by gains in the US market and falling domestic rates. The NZSE-40 Capital Index rose 12.19 points to 2,105.69.

Taipei: Share prices closed higher in quiet trading. The market's Weighted Index rose 57.57 points to 6,061.95 after Thursday's 20-point fall.

Manila: Share prices closed lower in light trading

because of profit-taking. The Philippines' unified composite index of 31 selected issues fell 11.89 points to 2,937.28.

Sydney: Australian share prices closed higher because of continued demand for resource issues following recent rises in world prices for copper, nickel and oil. The All Ordinaries index rose 28.6 points to 2,070.0.

Seoul: Share prices closed lower after seven straight days of advances. The Korea Composite Stock Price Index fell 2.00 points to 950.45.

Singapore: Share prices closed higher in lackluster trading. The 30-share Straits Times Industrials Index rose 35.71 points to 2,286.12.

Kuala Lumpur: Malaysian share prices closed higher in light trading, boosted by the buying of blue chips in the afternoon. The Kuala Lumpur Stock Exchange's Composite Index rose 7.63 points to 1,004.55.

Clinton under pressure to continue China's MFN status

WASHINGTON, May 13: With billions of dollars in trade and business at stake, President Clinton was under increasing pressure Thursday to declare that China has met his conditions for renewing trade privileges, reports AP.

A study, released by Sen Mark O Hatfield, R-Ore, said termination of favourable trade relations with China would cost American consumers 10 billion dollars a year and hurt several key US industries.

It predicted that China will spend 400 billion dollars over the next five years on imports related to major public works projects and modernization of plants and equipment.

Chairman Lee Hamilton, D-Ind, of the House Foreign Affairs Committee, lending his influential voice to pro-MFN camp, said that the president should "go ahead and find that the terms of the executive order have been met."

The announcement of Zhang's release followed one day after news that China will allow dissident legal scholar Yu Haocheng to travel to study in the United States after four years of refusing to let him leave.

So far, the administration has greeted each move by Beijing with praise, and the admonition that more must be done.

Clinton must decide by June 3, but Secretary of State Warren Christopher has notified key officials the decision is likely to come before the president leaves for Europe on June 1.

Sources in the administration and on Capitol Hill said that Tibet and political prisoners were the focus of quiet and intense ongoing discussions between the United States and China.

IMF director appreciates economic reforms

Visiting Director of South East Asia and the Pacific department of International Monetary Fund (IMF) Kunio Saito Thursday appreciated the Bangladesh government's economic reforms and said these would help accelerate the pace of economic progress, reports BSS.

The IMF director made this commendation when he called on Prime Minister Begum Khaleda Zia at her office in the afternoon.

Saito said the IMF would extend all-out cooperation towards developing Bangladesh's economy.

The prime minister told the IMF director that her government had already taken a number of steps to improve the lot of the people, particularly the women.

She mentioned the introduction of compulsory primary education, free education for the girls students up to class eight outside the municipal areas, incentives to set up small and cottage industries and dairy and poultry farming in rural areas.

As the deadline has drawn close, the body language from the administration suggests a leaning toward renewal.

"China has made significant overall progress in several of the areas outlined in my executive order," Clinton said during a recent CNN foreign policy forum. "But not in all of the areas."

There was speculation on Capitol Hill that Clinton might send a special envoy to Beijing in a last-ditch effort to spell out precisely the steps China must take to win renewal of Most Favoured Nation status, under which its products enter the United States at the lowest available tariff rates.

But administration officials said they knew of no such plan.

When Clinton renewed MFN for China a year ago, he issued an executive order saying that continuation of the trade status depended on China allowing freedom of emigration and adhering to an executive order saying that continuation of the trade status depended on China allowing freedom of emigration and adhering to an agreement that would allow inspections to assure that Chinese exports to the United States were not made with prison labour. In addition, the executive order directed Christopher to determine whether China had made "overall, significant progress" on human rights and in "protecting Tibet's distinctive religious and cultural heritage."



Abdus Samad Bhuiyan, Chairman, Bangladesh Parjatan Corporation, distributing certificates among participants of different professional courses at hotel & tourism training institute in the city on Thursday.

Gold production down in Brazil

BRASILIA, May 13: With the increase in gold mining activities across the world, particularly in Latin America, gold production has dropped in Brazil over the past few years, the Brazilian newspaper 'Gazeta Mercantil' reported today, reports AFP.

According to figures released by Brazil's National Department of Mining Production (DNPM), 101 tons of gold were extracted on 1989, a boom year for gold mining in Brazil.

Last year, only 70 tons were obtained which represents a drop of 31 per cent in five years.

The decrease was due to a decline in gold mining activities in this country.

Last year, gold miners obtained 30 tons, only one-third of the 1988 production.

Parjatan provides tourism training to 10,000

Hotel and Tourism Training Institute of the Bangladesh Parjatan Corporation has trained about 10,000 people in different discipline of tourism since its inception, reports UNB.

Most of the trainees of the institute have been employed in the hotel, restaurant, travel agency and as tour operators in home and abroad.

This was disclosed at the certificate-awarding ceremony of the institute held at its auditorium Thursday evening. Chairman of Bangladesh Parjatan Corporation Abdus Samad Bhuiyan attended the function as chief guest.

Certificates were awarded to 154 successful trainees of special Ladies Food Production Course.

US inflation remains at bay

WASHINGTON, May 13: US financial markets rallied Thursday after a flurry of government economic reports indicated that inflation remains at bay despite the expanding economy, reports AFP.

But the sense of relief will probably be just a breather before the Federal Reserve's next credit tightening, expected to come at any moment.

Investors were keeping a wary eye on the fed, which has jolted financial markets three times early February by raising short-term interest rates to ward off inflationary pressures.

Bond prices, extremely sensitive to inflation worries, jumped after the labour department said wholesale prices fell 0.1 per cent in April, their best performance of the year.

The April decrease in the department's producer price index, an inflation barometer, contributed to a 0.4 per cent decline in wholesale prices over the last 12 months. It was the first time since January 1992 that they have fallen over a year-long period.

The stock market followed the bond market's advance as encouraged investors sent share prices rebounding from a clobbering on wall street a day earlier.

The Dow Jones industrial average climbed 21 points in the first 25 minutes of trading on the New York Stock Exchange, nearly wiping out a 27-point loss Wednesday.

In separate reports, the government also announced that retail sales unexpectedly fell sharply last month, and first-time unemployment claims rose last week.

Overall, the reports reflected an economy that is growing at a moderate pace with little hint of inflation, dampening investor concerns that the economy was overheating.

"I just think this confirms our view that the economy continues to expand with low inflation," White House spokeswoman Dee Myers said.

Today's reports says there isn't any inflation out there right now, but it doesn't tell you anything about what might happen next month or three or four months down the road" said Cynthia Latta, an economist at Dri-McGraw Hill Inc.

The government's report of a 0.1 per cent decline in wholesale prices surprised Wall Street analysts who forecast a 0.2 per cent increase.

US retail sales unexpectedly dropped 0.8 per cent in April, the commerce department said. Many experts predicted a 0.3 per cent increase in retail sales, which account for roughly one-third of US economic activity.

But analysts pointed out that the sharp decline followed a revised 1 per cent increase in March, much stronger than the 0.4 per cent initial estimate.

The number of first-time claims for US unemployment benefits rose by 378,000 in the week ending May 7, up 26,000 from the previous week, the labour department said.

The four-week moving average, a more reliable indicator of job trends, rose last week to 358,000 the highest level since February 19.

The Clinton administration, which has been trying to calm jittery markets spooked by federal reserve moves against inflationary pressures, said the figures proved the economy was not overheating.

"I just think this confirms our view that the economy continues to expand with low inflation," White House spokeswoman Dee Myers said.

Today's reports says there isn't any inflation out there right now, but it doesn't tell you anything about what might happen next month or three or four months down the road" said Cynthia Latta, an economist at Dri-McGraw Hill Inc.

The government's report of a 0.1 per cent decline in wholesale prices surprised Wall Street analysts who forecast a 0.2 per cent increase.

US retail sales unexpectedly dropped 0.8 per cent in April, the commerce department said. Many experts predicted a 0.3 per cent increase in retail sales, which account for roughly one-third of US economic activity.

But analysts pointed out that the sharp decline followed a revised 1 per cent increase in March, much stronger than the 0.4 per cent initial estimate.

The number of first-time claims for US unemployment benefits rose by 378,000 in the week ending May 7, up 26,000 from the previous week, the labour department said.

The four-week moving average, a more reliable indicator of job trends, rose last week to 358,000 the highest level since February 19.

Lack of good governance leads to high rate of corporate failure

Economic and human behaviour literature suggest that every rational individual acts at his own interest and he tries to maximise his own utility. Since resources are scarce but wants are unlimited it is likely that at one stage he will try to satisfy his frustrating others. Here is the need for effective control and monitoring on each individual and society. The better the control, the better the progress. Control does not mean restrictions on one's freedom rather it pursues him to act according to norms and standards. If he does accordingly he is rewarded and if he violates he is punished. Thus control and monitoring is a disciplining device.

Today I would try to talk about control in public limited companies listed in the Dhaka Stock Exchange. This is particularly important because in such a company owners (shareholders) do not directly take part in day-to-day management of the company. Rather, they hire professional managers (agents) to run the business on their behalf.

Because of this separation of ownership, managers have the incentive to act in their own interest even at the cost of shareholders' interest. There are enough evidences of managers' self-interested behaviour both in the country and in the international context. For example:

- (1) managers (particularly the directors) over compensate themselves both in the form of remuneration and perquisites.
- (2) they manipulate financial statements.
- (3) they use inside information in share trading.
- (4) they lavishly give to charitable organisations and

political parties from the corporate fund with a view to attaining power and status in the society.

(5) they try to avoid risk which is against the interest of shareholders (shareholders are generally considered to be riskseekers). There are, however, many control mechanisms to mitigate these dysfunctional behaviour. Economists consider external control (viz., product market, labour market, and capital market) as an important control mechanism particularly in a privatized economy. Accountants consider internal control (viz., budgeting, responsibility accounting, standard costing, variance analysis, and performance appraisal) as an important control mechanism because it is widely accepted that the market (external control) has some imperfections even in a developed economy.

Today I am particularly interested in corporate governance which is virtually a mixture of internal and external control. Corporate governance particularly deals with

(1) the composition of the board of directors, the duties and responsibilities of the Managing Director and the Chairman, the duties and responsibilities of Executive Directors and non-executive directors.

(2) the role of shareholders, particularly of institutional shareholders.

(3) the role of loan providers.

(4) the detailed disclosure of information in the company reports an accounts according to relevant business laws and regulations, and (5) the role of external and internal audit.

Institutional shareholders like investment banks, insur-

ance companies, and commercial banks generally hold shares in bulk and, therefore, they have the motivation to monitor managers' activities. The USA evidence suggests that institutional ownership is associated with wealth increase of shareholders. Popular press 'The Financial Times' reported dismissal of many corporate managers in the UK during 1991-92 because of the pressure of institutional shareholders. Now-a-days the USA and the UK institutional shareholders hold on average 65 per cent of corporate resources whereas, in Bangladesh institutional shareholders including Investment Corporation of Bangladesh (ICB being the main institutional shareholder) hold on average 15 per cent shares of the Dhaka Stock Exchange listed firms.

The institutional shareholders in the USA and the UK are organized and they have common forums, for example, the institutional shareholders' Committee in the UK from where they issue specific guidelines about the duties and responsibilities of the Chairman and the Chief Executive Officer (CEO), executive and non-executive directors, and about various incentive schemes. Whereas, institutional shareholders in our country are not yet organized and more precisely they have no common forum from where they can throw guidelines for our managers. In the UK, institutional shareholders are widely spread among insurance companies, pension funds, banks and financial institutions. Whereas, in Bangladesh ICB is the main institutional shareholder.

Insurance Companies and commercial banks have not yet

taken any significant role in corporate governance.

In the USA and the UK institutional shareholders also exercise some influence on corporate management by nominating their representative in the corporate board. The nominated directors are called non-executive directors. The Cabury Committee Report (a committee of academics, industrialists, and policy makers) specifically provides that every stock exchange listed company should have at least one non-executive director in the Board. Non-executives generally sit in the board meeting once in a month and look after managerial remuneration and companies' audit affairs. In short, they work as watchdogs. The usual modus operandi of their appointment is that the Board of a company takes an executive director of another company. For example, Marks & Spencer (a UK food company) appoints the CEO of Barclays (the largest UK clearing bank) as a non-executive director.

In Bangladesh, non-executive directors are known as nominated directors. Though ICB, as an institutional shareholder, has a portfolio spread over 58 companies in the year 1993 they nominated one director from their own manpower in only 13 (22.4 per cent) of these companies. ICB rightly argues that they cannot nominate one in each company because of their shortage in manpower and right expertise which a non-executive director should possess. The problem with ICB, however, is that they could not yet come up with the idea of cross-sectional directorship in corporate management like in the West. More

Dr Dhiman Chowdhury

precisely, ICB can take a venture of nominating non-executives not from their own manpower but by choosing one from another company. ICB can choose, for example, one director from Bengal Carbide Ltd. to act as a non-executive director in Eastern Cables Ltd. or vice versa. If this process is followed ICB can nominate at least one non-executive director in the Board of each of their portfolio.

I do not, however, claim that non-executives are always effective governance mechanism. According to Michael Jensen of Rochester University, outside directors (non-executives) with little or no equity stake in the company have little or no incentive to monitor and discipline the managers who have selected them. The West is divided over the role of non-executive directors. Some studies in the USA document that non-executive directors mitigate agency problems while others observe that non-executives increase the problem. For the first time in the UK in 1993, I found that non-executive directors, particularly those who are affiliated with the host-company management, augment the problem and in particular cooperate with the host-company directors to consume more corporate resources in the form of compensation.

However, I also observe that when a non-executive director is independent of the host-company management, he helps in controlling managerial remuneration. The question of empirical investigation does not arise at the moment in the context of Bangladesh because it is realized that this governance mechanism is a rare

phenomena in the country. Although the Companies Act 1913 provides that at least 2/3 of director shall retire by rotation in the AGM (annual general meeting) the process of reelection continues for years. Shareholders both individual and institutional rarely elect their representative in the board.

Moreover, I consider an AGM of our country at present stage as a place for get-together, where no serious business is conducted rather the shareholders prefer to enjoy lunch with big corporate bosses. AGMs are irregular in our country, 25 companies out of 142 listed companies (17.6 per cent) were irregular in holding AGM during the last three years. I also studied AGM minutes of 30 companies of the year 1993 and found that no shareholder raised the question about non-disclosure of directors' remuneration in the company report and accounts although the disclosure is a statutory requirement under the Companies Act 1913 and the Securities Exchange Ordinance (Amendment) 1987. It should be noted that in a previous article published in The Daily Star (6th April) I had indicated that directors' remuneration could not reflect shareholders' interest and about 40 per cent of companies failed to disclose directors' remuneration in the company annual reports and accounts.

Verification of the audit reports sows that auditors have made no qualification in their reports about this violation. One high official of Investment Corporation of Bangladesh viewed that the legal cover (penalties) in our business laws are not enough to take actions against the managers who are

in default. I visited the Registrar of Joint Stock Companies (company regulator) in Dhaka and talked to responsible persons. From the discussion it appeared to me that the Registrar deals with a large number of companies (about 3000 Public Ltd Companies up to June 1993) and it is practically impossible for the Registrar's office to verify each and every company's financial statements with a view to ensuring that the statements have been prepared under the relevant business laws.

Even in the UK the Department of Trade and Industry (industry regulator) had spent on average 1.5 minutes for each company's financial statements during 1992. Thus it is recognized that it is the potential shareholders creditors who should take the major role in ensuring that the financial statements have been prepared under the relevant business laws. At the moment I do not expect too much from individual shareholders because they hold a small fraction of the companies' shares and therefore, they have less incentive to be cautious about corporate management (free riding problem). The initiative should come from the institutional shareholders who have bulk ownership and high voting power.

It is widely believed that Good corporate governance is a pre-requisite for good corporate performance and for the alignment of interest between managers and shareholders. But the irony is that every element of governance is an imperfect control mechanism. For example, institutional shareholders are criticized for not attending regularly in the AGM. Furthermore, sharehold-

ers may not intervene because the existence of active secondary markets and the difficulties of intervention normally provide them with less costly option of simply exiting (selling their shares). Independence of non-executive directors is a difficult task to achieve. Audit profession is under threat and their reform is a talk of the days even in the West. Thus it appears that all the elements of corporate governance have their limitations but when their role is evaluated together as a package, corporate governance could be a powerful control mechanism in mitigating agency problems. Therefore, instead of relying too much on a particular element of governance, good corporate governance should be thought of as a control package ensuring a proper balance among the various elements of the package.

I accept that our stock market is at an infant stage. Some policy makers view that "let the plant grow first. It is not good to cut the plant in the fear that its branches will be disorganized." I buy their idea but I also believe that what begins well, ends well. Huge investment in foundation of buildings and bridges, considerable time and patience in take off of an air bus, a good contract in the principal-agent relationship, and on average 2.5 times investment in primary education compared to higher education in the developing countries (Sri Lanka, Korea, Malaysia as compared to Bangladesh, India, and Pakistan) are prominent examples of care at the beginning. It is a possibility that high rate of corporate failure in our country is due to lack of good governance.