

India, Iran agree
to enhance
cooperation

NEW DELHI, Aug 24: India and Iran yesterday agreed to enhance economic cooperation particularly in the sectors of energy, transportation and science and technology, reports PTI.

This followed meetings the visiting Iranian leader, Dr Hassan Rohani had with Indian leaders including the President, Dr Shankar Dayal Sharma, the Vice-President, KR Narayanan and the Prime Minister PV Narasimha Rao here.

Dr Rohani is the Chairman of the Foreign Relations Committee of the Majlis of Iran and Secretary of National Security Council.

At the delegation level talks with the Minister of State for External Affairs RL Bhatia, it was felt that close cooperation between India and Iran was in the interest of peace and stability in the entire region.

The setting up of a natural gas pipeline from Iran to India and cooperation relating to trade and economic relations with central Asian countries also received particular attention.

The Iranian delegation comprises members of the Majlis and the Deputy Foreign Minister, Alaeddin Broujerdi.

The need for more cooperation in the cultural field including tourism, university exchanges and radio and TV programmes was stressed at Dr Rohani's meeting with Narayanan.

Dry spell in
Indonesia
may cut rice
output by 4pc

JAKARTA, Aug 24: The current extremely dry season in Indonesia may cut the country's rice output by four per cent this year, the Antara news agency said Tuesday, reports AFP.

The precise figure has not been calculated yet but because of the widening of the drought it is believed that rice production will be reduced by between three and four per cent, Antara quoted Director General of Food Crop Amrin Kahar as saying.

Kahar estimated the country's production of unhusked rice this year would reach 46.2 million tonnes compared to 48.1 million tonnes last year.

Country's tea export falls

From Nurul Alam

CHITTAGONG, Aug 24: The country's tea exports have dropped by around 6 million kgs in the just ended fiscal year (93-94) amid a price decline.

According to official reports, Bangladesh exported 27.41 million kgs of tea in 93-94, down from 33.08 million kgs exported in 92-93 fiscal year.

The average tea price fell to Taka 42.69 per kg in the current season from Taka 49.10 per kg recorded during the previous season, tea auction officials here said adding that since the beginning of current season from the last part of April '94, tea prices continued to slump because of dull trading.

A senior executive of a lead-

ing broker house in the port city said "the price fall in international markets particularly in Sri Lanka, South India and Kenya had affected our tea trade while export enquiries dropped remarkably."

Brokers said that most of the traditional buyers of Bangladesh tea from Pakistan, Russia, Iran, Jordan, Poland and continental countries had moved to Kenya and other markets to avail cheap priced teas.

Officials of Bangladesh Tea Growers Association, a grouping of the country's 151 tea gardens, mostly in the private sector, said tea exports had fallen because of less enquiries by foreign buyers.

Besides, proper drives were not made by the concerned

government bodies to explore new possibilities and diversified export markets, they also said.

A senior official of state owned Bangladesh Tea Board said "we have nothing to do otherwise to capture global markets until and unless the cost of production of our tea is minimised by raising the yields."

According to official reports, in the seven months upto July this year, the country produced 23.8 million kgs of tea up from 22.1 million kgs produced in the corresponding period of 1993.

In the year 1993 alone, tea production rose to 51.9 million kgs from 48 million kgs a year before (1992).

IDB chief
in city

The Islamic Development Bank (IDB) President Osama Jafar Faquih arrived in city yesterday on a three-day official visit, reports BSS.

He was received at the Zia International Airport by the Minister of State for Finance Mujibur Rahman.

During his stay in Dhaka the IDB chief is scheduled to call on Prime Minister Begum Khaleda Zia, Finance Minister M Saifur Rahman, LGRD and Cooperatives Minister Abdus Salam Talukder, Energy Minister Dr Khondker Mosharruf Hossain, Religious Affairs Minister Keramat Ali and Education Minister Jamiruddin Sircar.

Osama Jaafar Faquih will attend the foundation laying ceremony of the IDB-Bangladesh Islamic Solidarity Educational building at Agargaon today.

This is Faquih's first visit to Dhaka since he took over as the IDB president.

Action against
price hike in
China ordered

BEIJING, Aug 24: China's Ministry of Internal Trade on Tuesday issued an urgent order demanding an end to steep rises in food prices, state radio said, reports Reuters.

The order told all localities to take action to end the sharp increases in advance of the important traditional holiday called the mid autumn festival, celebrated this year on September 20, and the October 1 celebration of the 45th anniversary of the founding of the people's republic.

The announcement singled out pork and vegetables, staples of the Chinese diet. The radio said the supply of food to the market had to be guaranteed, using state stockpiles if necessary.

It demanded an end to hoarding and speculating and threatened severe punishment for illegal activities.

The government had made fighting inflation a top priority for fear of public unrest.

Many Chinese are angry at the price rises, complaining bitterly that the price of pork has shot up more than 30 per cent since the beginning of the year.

The price of grain in major cities had a retail price rise of 52 per cent in June compared to a year earlier, according to the latest figures available.



Mahmoud Bayat, Ambassador of the Islamic Republic of Iran in Bangladesh, called on Mahbubur Rahman, President of the Federation of Bangladesh Chambers of Commerce and Industry at the FBCCI office in the city yesterday. K M Shafiqul Islam, Vice-President of FBCCI also seen in the picture.

Venezuela to relax exchange
controls for foreign investors

CARACAS, Venezuela, Aug 24: Venezuela's exchange authorities are about to approve new rules that allow foreign investors to repatriate their profits unhindered, officials said Tuesday, reports AP.

The imposition of currency controls last June had scared off some investors, who were reluctant to put money in a country with strict currency restrictions.

"We have defined the game rules, as investors required," said Luis Raul Matos Azocar, head of the exchange administration board. "We guarantee that if they bring the money, they will be able to repatriate it."

The measure will be approved later this week, Pedro Beltran, a member of the exchange board, told The Associated Press.

Investors will have to register before the Technical Office of Exchange Administration (TOEA), just as they do now with the Superintendency of Foreign Investment, Beltran said.

To repatriate dollars, companies will have to prove that the money being requested represents profits by showing copies of their balance sheets. Authorities might carry out audits of companies to check the validity of the documents.

Foreign airlines will have priority in the repatriation of their profits, said Beltran. Some airlines have threatened

to suspend flights to Venezuela due to difficulties in taking their earnings out of the country.

President Rafael Caldera imposed the currency controls along with price controls last June 27, in an attempt to halt capital flight and curb inflation.

After the measure was announced, the restrictions in the supply of dollars were so tight that importers, exporters and many industries warned of imminent shutdowns. The re-

strictions were eased somewhat since Caldera named Matos Azocar to head the exchange board two weeks ago.

Matos Azocar replaced Ivan Pulido Mora, who had been heavily criticized for allegedly delaying dollar supplies.

Foreign investment in Venezuela reached 237.8 million dollars in the first seven months of this year, up 59 per cent from the same time last year.

Reforms announced to
revive Ukrain economy

KIEV, Aug 24: New Ukrainian President Leonid Kuchma announced Tuesday reforms aimed at reviving the country's ailing economy, spearheaded by the re-introduction of its currency on to the money markets, reports AFP.

Under a decree, Kuchma ordered that trading in the Karbovanets, suspended by his predecessor Leonid Kravchuk in November last year, will resume from October 1.

Kuchma, elected president on July 10, pledged to pursue policies of careful reform in the debt-ridden former Soviet republic, while seeking closer economic and political ties with Russia.

Ukraine, saddled by eco-

nomie woes including the huge cost of disarming its nuclear arsenal, is scheduled to receive 700 million dollars from the United States this year, making it the fourth largest US foreign aid recipient.

Kuchma's chief economic advisor Vladimir Kuznetsov said the new reforms would likely lead to an initial weakening of the Ukrainian currency, which was expected to resume trading in October at about 55,000 to the dollar.

The rate of inflation was expected to remain below the monthly 10 per cent level required by the International Monetary Fund, another presidential advisor Anatoly Galchinski said, according to the Interfax news agency.

With new approaches & dimensions as well as to increase competitive pressures on the commercial banks.

Asian stock markets close mixed

HONG KONG, Aug 24: Asian stock markets closed generally mixed Wednesday, with share prices recovering in Hong Kong on late bargain-hunting, reports AP.

Meanwhile, the US dollar closed at 98.52 yen on the Tokyo foreign exchange market Wednesday, up 0.39 yen from Tuesday's close.

WELLINGTON: New Zealand share prices finished higher in moderate trading. The NZSE-40 capital index finished up 21.57 points to 2,081.14.

TAIPEI: Share prices ended

higher as financial shares carried the market. The market's Weighted Index rose 63.95 points to 6,862.14 points.

MANILA: Share prices closed higher for the fourth straight day in choppy trading as brokers said buyers outnumbered sellers in the market. The Philippines' unified composite index of 31 selected issues rose 18.26 points to 3,124.11.

SYDNEY: Australian share prices closed stronger in steady trading. The All Ordinaries index closed up 9.6 points to 2,061.1.

SEOUL: Share prices closed

lower as brokers said the selling pressure was gradually easing. The Korea Composite Stock Price Index fell 7.87 points to 943.64.

SINGAPORE: Share prices closed lower in profit taking. The 30-Share Straits Times Industrials Index fell 24.06 points to 2,278.82.

KUALA LUMPUR: Malaysian share prices ended lower as heavy dealings in lower-priced issues continued to dominate the market. The Composite Index, which is biased toward blue chips, fell 4.78 points to 1,141.57.



Mustafa Aminur Rashid, Managing Director, Agrani Bank, recently visited few projects of Chittagong and Cox's Bazar areas and inaugurated a project financed by the bank. He was accompanied by General Manager, eastern circle, Zahiruddin Ahmed during the visit.

The financial system in Bangladesh: Some comments

By A M A Rahim PhD

ALTHOUGH the evaluation of any system, especially of the currency and banking system in any country is not an easy job, yet efforts have been made by many in this area. It may be noted that an empirical study was conducted by the Bangladesh Management Development Centre (BMDC) to find out economics of scale in banking operations in Bangladesh using ten years cost data of various nationalised banks. The search in the study was for getting U-shaped Marginal Cost and Average Cost Curves which conform to the economics of scale. In the test, though coefficients of variables turned out to be statistically significant, they did not yield the results for U-shaped Marginal Cost and Average Cost Curves. The BMDC study has apparently not taken into consideration the fact that the gestation period of large number of branches, particularly in the rural areas, was not yet over, and as such, their cost of operation remained high.

The Commercial Banks

Generally, the organisation of nationalised commercial banks involves a three tier structure, viz the head offices, the regional offices and the branches. While regional office is responsible for supervision and control of branch offices, direct control over the working of branches is also exercised by the head office in many matters. In order to ensure smooth functioning of banks through avoiding multiplicity of controls and ensuring prompt disposal of cases, adequate power should be delegated to the zonal offices. The financial power of the regional offices should also be adequately increased to enable them to assist industrial and other developments in their respective regions.

It was expected that local private banks would function smoothly and efficiently and comply with the requirements set forth in the guidelines given by Bangladesh Bank. Their actual operations, however, presented a different picture in view of the rather large size of the board of Directors of local private banks. Moreover, the manage-

ment of these banks are yet to ensure a proper corporate character of their institutions. Difference of the managing directors of advisors with the board resulted in removal of managing directors and advisors in some of these banks. A number of directors of some of these banks availed of loans much in excess of what has been prescribed by the BB. Expenditure for ostentation or providing amenities to the directors in hidden form turned out to be substantial. In view of the above, the BB decided to inspect the local private banks every year. This decision was no doubt in the right direction.

It took some time for the BB to be aware of the unfavourable development in the private banks. In order to have quick information about the working of the private banks as also to influence the thinking of the management and the Boards of the private banks to operate on sound and prudent lines, it is necessary that the BB should be represented in the board of directors of the private banks. Earlier, the BB was represented in the Board of Directors of the nationalised banks, but this has now been discontinued. In order to facilitate exchange of views and help create a better understanding between the BB and the nationalised banks, the previous practice may be restored. The representation of the armed forces in the NCB Boards is quite inexplicable.

So far, the financing of debentures issued by the government corporations and autonomous bodies has mostly been done by the NCBs. In order to reduce the burden of these banks in this regard, the local private banks and the foreign banks may be asked to play some role in financing debentures issued by the government corporations and autonomous bodies. The foreign banks have reportedly shown reluctance to accept fixed deposits for three years and above apparently to keep their

cost of funds low when the preference of depositors for this category of deposits was high, such a tendency impedes deposit mobilisation. The foreign banks may, therefore, be advised that they should not decline to accept fixed deposits with longer maturities. This problem could however be much less felt no as the deposit rates have been gradually been brought down substantially. Suggestions were occasionally made from certain quarters for setting up specialised banks like the Export Bank, the Hajj Bank and the Export-Import Bank. The nationalised commercial banks are at present providing credit to all sectors as liberally & adequately as possible. Apart from this, if separate banks are set up for the garments and fisheries sectors, they will not be able to mobilise adequate deposit resources and will thus depend heavily on refinancing from the BB for their resources.

Other Financial
Institutions

When Bangladesh Shilpa Rin Sangstha (BSRS) and Bangladesh Shilpa Bank (BSB) were established in 1972, the intention was that the former would be involved in large scale industrial projects and the latter would finance mainly smaller ones (with investment upto Tk 20 lakhs). In practice, however, their operations have been overlapping. Against this background and in the face of large proportion of their non-performing assets, there was a suggestion to merge the two DFIs for industrial lending. There was also a proposal to split up the Bangladesh Krishi Bank (BKB) into four units. Extreme caution should be exercised regarding the proposal to merge the two DFIs for industrial lending or two split up the BKB into four units until some measures of financial discipline is enforced through an effective recovery of overdues. So far as term financing is

concerned, the BKB is at present financing projects other than agro-based ones also, namely purchase of coasters, printing press etc. It is recommended that the BKB's term financing should remain confined to agro-based industries alone. It may be noted that while the BSR have been proposed to be converted into a bank called 'Development Bank' the BKB has been split into two, thereby creating the Rajshahi Krishi Unnayan Bank (RAKUB) for Rajshahi Division and the BKB for the rest of the country. That was unfortunately a political stunt not warranted by economic logic.

Following the setting up of private banks a Deposit Insurance Scheme was introduced through an ordinance as a safeguard, which required all scheduled banks to ensure their deposits with the BB at a premium of Tk 0.40 per thousand Taka. The schemes ensures individual deposits upto a value of Tk 60,000. At present the deposit Insurance Scheme is managed as an integral part of operations of the Bangladesh Bank. With regard to this scheme questions like whether the coverage of the Deposit Insurance Scheme should be sufficiently broadened by including deposits of higher value, whether a variable premium structure related to the riskiness of the asset portfolio on each financial institution should be allowed and whether the BB should continue to manage the scheme, or a separate institution like the Deposit Insurance Corporation should be set up, need to be examined in depth. Funds representing premiums should be kept separate if the BB continues to manage the Deposit Insurance Scheme.

Customer Services

There is a need to improve customer services of banks particularly in the nationalised banks. These services include counter services, semi-counter services and non-counter services. The easiest way to im-

prove the counter services is to introduce micro-computers in large A-grade branches. This will at the same time release some manpower to take care of the non-counter services. In B and C-grade branches, prompt counter services can be ensured by rearranging the sitting arrangements or office layout. Consumption of time can also be minimised by reducing the procedural difficulties. Even in large branches, time can be saved by introducing the concept of sub-branches within a branch. Adequate space and modern office equipments including micro-computers where needed will also help minimise the consumption of time for different counter services. Introducing card system instead of ledger book and placing officers instead of clerks at the counter will result in substantial saving of time.

The important non-counter services include sanctioning and disbursement of credit, supervision and follow-up of the projects. A number of steps need to be taken to improve the services. First, the sanctioning authority of branch managers should be increased.

Second, the managers should be made fully responsible for the identification of borrowers, supervision and follow-up of the loan projects & recovery of loan instalment. Third, political or any other external influence should not be allowed to play any role in decision making and the managers should be protected from such influences.

Post Office Savings Banks

Operating procedures of Post Office Savings Banks severely reduce their appeal to savers. With withdrawals by depositors holding accounts in offices other than General or Head Post Offices usually involve a delay of one to two weeks in receiving funds because Pass-books must be mailed to the controlling

General or Head Post Offices. Interest receipt is also delayed because of the fact that interest calculations are required to be made in the Accountant General's Office. Because of these shortcomings and cumbersome procedure, and in view of the fact that the Savings Bank function is considered secondary by the post office employees and also for the reason that post office saving banks do not undertake lending operations, a question arises as to whether a National Savings Bank replacing the Post Office Savings Banks should be established in the country. In Sri Lanka a National Savings Bank was established in March. The experiment with Savings Bank in Thailand also met with considerable success. A committee may be set-up to examine whether the setting-up of such a savings bank in Bangladesh would be helpful and would represent an improvement over the existing Post Office Savings Bank system.

The Informal Market

Bulk of the loans in the informal market is availed of for consumption purposes.

Industrial credit for such purposes is not very substantial. There is an imperative need for the demand for consumption loans particularly in the rural areas during the lean months for agricultural production and also of the time of natural calamities and disasters. It is, therefore, suggested that some arrangements be made to supply short-term consumption loans to agriculturists during the lean period in order to protect them from exploitation by village money-lenders in the informal market.

As precise information on the size and behaviour of the informal market, interest rates charged, and the types of linkages between the formal and informal markets is lacking, a detailed study on the subject may be undertaken by some

research organisation/institutions.

The Capital Market

Adequate attention should be paid to the capital market in the country. Although activity in the Dhaka Stock Exchange (DSE) is expanding, it is still not substantial & the shares enlisted with the DSE did not exceed 150 by June, 1993. In order to step up activities in the DSE it is necessary not only that the number of shares enlisted should be considerably increased but also that the liquidity, return & security of shares should be adequately enhanced. Incentives to investors need also to be strengthened substantially. Liquidity of shares can be ensured by a ready market for disposal of shares in the event of need for funds by investors. The security of shares can be enhanced by reducing the financial risks, the moderation for financial risk can be effected by allowing the listing of only those companies which meet minimum standards of size, earnings and dividend payments. The risk could also be substantially reduced, if the investors can feel that the financial position of the concerned financial companies is sound. For this purpose, it would be necessary that the Balance Sheets of companies are audited properly.

Convertible debenture is another investment instrument which has become popular in some countries. The initial subscription of the individual investors is in the form of fixed-interest bearing Bonds/Debentures for a period of 3-4 years. Thereafter, the investors will have the right to convert it into shares. Bonds/Debentures floated by highly reputed firms usually get satisfactory response from individual investors.

Growth and supervision of non-banking institutions, particularly merchant banks and finance companies are important. These are important to enrich the financial system

Monetary Policy

The operation of monetary policy has been generally restrictive since real interest rates rose very rapidly. Despite the efforts of the central bank to ease monetary policy, this proved impossible as lending rates in real terms were higher than ever. As is so often the case, when the economy is sluggish, as is now, then the central bank can do little to stimulate investment. To improve monetary policy open market operations need to be available to the central bank and closely related to a risk free, market determined interest rate.

DEVELOPING A PRIVATE BANKING SYSTEM: The importance of a private banking system remains paramount. The question is what is the best way to develop one. The competitive approach of starting more private banks & supervising these closely to ensure that there is more compliance with the various regulations governing the banking system seems to be the best way to expand the private banks. The repeated recapitalisation of the NCBs, apparently part of the reform programme conditionality, creates a dangerous precedent as it relieves pressure on the NCBs to improve their operations.

While the financial sector reforms, have focused on the preconditions for the financial sector to the successful, the critical areas of the agricultural, industry, and export financing have received limited attention. We draw attention to these three sectors because these are critical to the development of the economy. The relative neglect of these aspects of lending has resulted in insufficient support to all of these sectors from the formal banking sector.

(The author who was the first Economic Advisor of Bangladesh Bank and retired as Secretary, Ministry of Planning is presently Senior Fellow at the Bangladesh Centre of Advanced Studies.)