

Lankan business community welcomes Chandrika's victory

Foreign investors awaiting strong signals on economy

COLOMBO, Nov 12: Sri Lanka's business community welcomed Chandrika Kumaratunga's record victory at presidential polls as an end to political instability, but foreign investors were awaiting strong signals on the economy, reports AFP.

The steamroller majority at Wednesday's election brought the focus back to economic issues sidelined since Kumaratunga's People's Alliance (PA) narrowly won the August parliamentary vote, business leaders here said Friday.

The government should now concentrate on economic issues and get on with the business of governing, said Manu Tittawala, the Chief Executive of local broking house Lanka Securities Ltd.

We are relieved that the political uncertainty is over. But there is no sense of euphoria because people do not see what the new govern-

ment is going to do (about the economy), Tittawala said.

He said Kumaratunga's 1.99 million-vote majority, which is seen as an overwhelming mandate to end ethnic blood-letting on the strife-torn island, sent a "very positive signal" to the local business community.

Despite the Tamil separatist war in the northeast that has left 30,000 dead since 1972 and costs the government a quarter of its revenue, the economy has been growing at an annual six-to-seven per cent in recent years.

Kumaratunga in a victory speech said she will pursue peace, but not at any price. She had earlier vowed to continue free-market policies introduced in 1977 by the previous administration and promised further liberalisation.

Local investors are active in the stock market these days but we won't see the market going ga-ga until the Novem-

ber-end vote on account of the first (national) budget by January end," Tittawala said.

Similar sentiments were expressed by Ajit Gunawardena, a director of John Keels Holdings, one of Sri Lanka's biggest business conglomerates involved in manufacturing and services sectors.

"The foreign investor is awaiting some clear indications on policy in the form of actual action," Gunawardena said, adding: "we are relatively confident that the government will continue with the same policies (as before)."

However, a leading exporter, Lyn Fernando, said there was concern about growing labour unrest since Kumaratunga's left-leaning PA assumed office in August and the rise of union action in export processing zones.

"We want to see how they arrest the labour problems. It is uppermost in our minds.

Problems are spreading to more factories," said Fernando, who heads the export promotion section of the Ceylon Chamber of Commerce.

The poll victory is expected to boost the tourism industry, which suffered a serious blow following last month's bombing of an opposition rally here that left opposition leader Gamini Dissanayake and 57 others dead.

"This strong win will hopefully erase the memory of the bomb blast. When there is stability, it is naturally good for tourism," said R Sivaratnam, Director of Aitken Spence, a leading travel and hotel operating company.

He said there were some cancellations following Dissanayake's slaying, coming just as the tourism industry was picking up after a series of minor bomb attacks on city hotels in April which caused little damage and killed one man.

PWD completes 3 dev projects in Ctg

CHITTAGONG, Nov 12: Public Works Department (PWD) here has completed three development projects including Chittagong Television Station and the Circuit House at an expenditure of over Taka 25 crore, reports BSS.

The third project completed by the PWD at a cost of Taka 2.79 crore is vocational training centre at Rangunia where about 100 persons can be imparted vocational training in one session. Additional Chief Engineer Sultan Ahmad told BSS here.

Chittagong Television station has been constructed at Pahartal in Foy's Lake area at an expenditure of Taka 18.70 crore. This is a full-fledged TV station.

Which may go into operation by June next, France has extended advisory services in establishing the TV station.

Christopher says DPRK can aspire to APEC membership

JAKARTA, Nov 12: US Secretary of State Warren Christopher today said that North Korea could aspire to membership of the Asia-Pacific Economic Cooperation (APEC) forum once it cleared doubts over its nuclear programme and other issues, reports AFP.

"Looking down the road, membership of APEC and other regional organisations is something the North Koreans can aspire to if their isolation ended and their conduct merits that kind of membership," Christopher said.

He said that a current moratorium on admitting new countries into APEC, which ends in two years, would allow the group to assess whether Pyongyang had made progress in resolving other issues like its abuse of human rights and support for terrorism.

Christopher was speaking at a news conference here at the end of a two-day meeting of foreign and trade ministers of the 18-member APEC, whose leaders will hold their second summit in nearby Bogor on Tuesday.

Christopher said that a framework accord between the US and Pyongyang on the nuclear issue was still in its early stages.

Fiji budget controls public sector wages

SUVA, Nov 12: Wages for workers in Fiji's civil service and statutory organisations will become subject to controls, according to the 1995 budget handed down Friday, reports AFP.

Prior to the budget, public sector unions had threatened industrial action if there was any move away from collective bargaining with the government on wages.



Federal Chancellor Helmut Kohl, a motor-cycle fan, at the Hockenheim-Ring. The German Head of Government did a lap of honour on the pillion of a BMW machine. — IN photo

Jakarta promises to improve conditions for workers

JAKARTA, Nov 12: Indonesia promised a major overhaul of its much-criticized labour practices Friday, handing the Clinton administration an apparent success in its campaign for improved worker rights, reports AP.

The announcement came as Indonesia's human rights record fell under fresh international scrutiny in the spotlight of next week's summit of Pacific Rim nations in Jakarta.

US Trade representative Mickey Kantor, in town for the summit, won the promise from Indonesian Manpower Minis-

ter Abdul Latief in talks Thursday night.

Kantor called it "a step in the right direction," but said he expected more.

"It does not resolve all the problems that are of concern here in Indonesia," he said, citing curbs on labour unions and lax enforcement of industrial safety laws and the minimum wage.

Latief sought to address these concerns in a statement saying that the government would review minimum wage laws annually, "intensity enforcement" of safety laws,

prosecute offenders and publish their names, and expand its programme for resolving labour disputes at company level.

It said it supported restructuring Indonesia's all-encompassing and largely toothless national labour union into a federation of independent unions.

Kantor told reporters he was pleased that Latief asked for the help of the AFL-CIO in reforming Indonesian labour practices.

In August 1993, Washington warned it would withdraw preferential trading privileges unless Indonesia improved the lot of its 76 million workers immediately.

That deadline was extended twice, and would have come again just before the Jakarta summit, so Latief's promised programme may have been partly an attempt to stave off embarrassment on all sides.

About 13 per cent of Indonesia's trade is with the United States, and a suspension of privileges would affect about 640 million dollars in annual exports to America.

Luhut Pangardian of the Indonesian Legal Aid Foundation said the decision was tied to the summit. "This is a big surprise, but it is just for you, the foreigners who come to Indonesia," he said in an interview.

"I don't think the Indonesian government is really interested in improving the condition of labour," he said.

Luhut noted that Latief's decision came less than a week after a court jailed trade union leader Muehtar Pakpahan for three years,

Barisal traders, UP chairmen, members meet Biswas

President Abdur Rahman Biswas stressed the need for carrying forward the on-going development programmes in the country by maintaining peace and order at all levels of society, reports UNB.

Peaceful law and order situation is prerequisite to achieving progress through increasing infrastructural facilities in the rural areas, he said.

The President was exchanging views with an 18-member delegation consisting of businessmen, chairmen and members of union parishes of Meherdiganj thana in Barisal district when they called on him at Bangabhaban yesterday.

He said overall development of the country largely depends on building the rural infrastructure like road links, bridges, supply of electricity and expansion of mass education programme among the people.

President Biswas advised them to set up more educational institutions to help commonman become literate, self-reliant and improve their quality of life.

The delegation submitted to the President a memorandum demanding setting up of a new thana headquarters at Kazirhat, electrification of Andamanik, Lata, Bidyasunder and Bhasan Char unions as these areas are isolated from the mainland.

Among others, A S M Shahidul Islam, Anisur Rahman Chowdhury, A K M Shahabuddin Ahmed, Shajahan Ali, Shamsul Haq, A M Mizanur Rahman, Shubash Chandra and Mahbubur Rahman were present in the meeting.

Microsoft Chairman buys Da Vinci manuscript for \$30.8m

SEATTLE, Nov 12: Microsoft Corp Chairman Bill Gates won the bidding war for a Leonardo da Vinci manuscript, paying a record 30.8 million dollars for 72 pages of notes and diagrams exploring the mysteries of the cosmos, reports AP.

Christie's America in New York said the purchaser was anonymous, but a spokeswoman for Gates' public relations firm confirmed that he was the buyer, the Seattle Post-Intelligencer reported Saturday.

Leonardo represents the fusion of art and science," said

the spokeswoman for Waggoner-Edstrom of Portland, Ore., who refused to be quoted by name. "I think that's why he is of such interest to Bill Gates."

The manuscript contains Leonardo's distinctive backward handwriting and meticulous drawings, and includes his explanation for why the sky is blue and his advice on building dams.

Gates plans to tour the work in museums around the world, the spokeswoman told the Post-Intelligencer. Gates was unavailable for comment.

Christopher Burge, chairman of Christie's America, said

Friday's sale was the highest price ever paid for a manuscript.

In the document, dated 1508 to 1510, Leonardo studies the water and cosmos through words and pictures. His explorations range from astronomy to the atmosphere, from physical geography to geology, from hydraulics to canal building.

On one page, he remarks that the light of the moon is reflected sunlight. He wrote a century before Galileo proved that the moon does not shine of its own accord.



Members of the leading cargo agencies in the country, seen with Md Ataulah, Dhaka THAI's Cargo Manager, enjoying a pleasant outing in Phuket, Thailand, during the cargo agents' educational tour conducted by the Thai Airways International recently.

The World Bank report on Bangladesh of 1994 "From Stabilisation to Growth" prescribes that our investment must rise to 18-20 per cent related to GDP for accelerating the growth of the economy and reducing poverty. It further suggests efficient public resource management and trade and industrial policies for the purposes of accelerating investment. The purpose of this paper is to highlight that presently the savings of the private sector which is reflected in the bank deposits are not being utilised appropriately because of the dualistic nature of the economy as reflected in formal and informal credit markets and to focus on the importance of integrating the formal and informal credit markets so that the economy as a whole can achieve an equilibrium between the demand and supply of credit. The last household expenditure survey conducted in 1992 revealed that about 50 per cent of the people lived below the poverty line. They all belong to what we call the informal sector.

The formal sector credit market consists of the commercial banks, the agriculture banks, the co-operative banks, the specialised banks like BSB and BSRs etc. The Bangladesh Bank generally monitors the activities and performance of the formal sector institutions. However, under the Financial Sector Reform Programme, a good deal of autonomy has been given to formal sector credit institutions, e.g., they can now set their own deposit and lending rates. The formal credit institutions can also borrow from the Central Bank through the process of rediscounting. As such deposit alone does not determine the fund availability of the formal sector credit institutions. At the going bank rate, they can borrow from the Central Bank to augment their loanable funds if suitable investment opportunity exists.

On the other spectrum is the informal credit market which has been characterised by chronic excess demand, in relation to supply of credit as is reflected in the price that is the interest rate. While there has been continuous monitoring of the formal sector credit there is little information on the functioning of the informal credit market. An important study was published by the Bangladesh Bureau of Statistics (BBS) in 1989 which showed that the share of informal sector credit was about 64 per cent of the total credit transactions. The proportion of credit granted by the banks was only 26 per cent, the rest was accounted for by the co-operative societies, Bangladesh Rural Development Board (BRDB) and Grameen Bank (GB). As a matter of fact, the share of informal credit market could be higher than revealed by the rural credit survey which omitted trade finance including cash advances like "Dadon" and credit sales. It is estimated that the inclusion of "Dadon and credit sales" would mean that the share of the informal credit market in the total rural credit would be around 70 per cent.

Credit Markets and Micro Enterprises

Dr A M A Rahim

It is known that in the formal credit sector a lot of surplus fund (around Taka 2,500 crore) are lying idle creating the impression that there is an excess supply of credit over demand. On the contrary, in the informal credit market, there is a great dearth of credit so much so that even with rates of interest of 5 to 10 per cent a month, credit is not easily available. It is paradoxical that although huge amount of idle funds are lying in the formal credit sector the credit needs of the rural and urban informal markets remain unsatisfied and the disequilibrium is being reflected in the high rate of interest. The informal credit market is highly flexible and transaction costs are readily reflected in the rate of interest. The interest rates are also fully adjusted to cover the opportunity cost of funds as well as any risk of default. The formal sector neglects the credit needs of the rural and urban informal sectors whose only choice is to turn to the informal credit market where the conditions of collateral and bureaucratic rigour are absent.

The informal sector has not been rigorously defined in the available literature. UNIDO used the term interchangeably with the traditional sector and in contradiction of formal or modern sector. UNIDO identified three components along the lines of modern technology, intermediate technology and traditional technology and defined informal sector as that consisting wholly of the traditional sector particularly located in the rural areas. The informal sector is sometimes defined according to the characteristics of the enterprise. It often implies self-employment in which less than 10 people work. There is easy entry, low capital-labour ratio, restricted access to credit, limited capacity for accumulation and advancement, production of low quality goods or services and lack of official registration.

Some authors regard Urban Informal Sector consisting of casual labourers, who work for a series of employers and who change jobs daily or even more frequently. Construction workers and transportation sector workers are regularly engaged in this way.

Another concept of the urban informal sector is as an underground economy in which legitimate activities are conducted without formal government permission, motivated by a desire to avoid licensing requirements, taxes, labour legislation or simply to avoid keeping accounts. Finally there are those who think of the Urban Informal Sector as a hot bed of illegal activities about which we suspect much but know little.

An important minority of people who work in small scale enterprises classified as informal sector by the ILO and

UNIDO definition, actually prefer such work to that in the formal sector for a number of reasons. Self-employment earnings can be relatively high for those with the right experience and skills; working conditions may be better; and some people prefer to be their own boss.

The urban poor rely heavily on work in small scale enterprises for their livelihood. They operate small shops and service establishments, sell food and cigarettes, hawk newspapers, repair cars and bicycles, collect and reprocess trash, and even scavenge in garbage dumps. Employment and income in the small scale enterprises tend to be erratic and unreliable. Despite the disadvantages, people work in small scale enterprises because there are few options elsewhere in the economy. It is difficult to measure precisely the importance of such activities since no survey has been undertaken in the recent past.

However in Sri Lanka 52 per cent of urban workers work as self-employed income earner or as casual labourers. In Indonesia, 52 per cent of employment is in cottage industries. In Bangkok, small scale enterprises account for about 30 per cent of urban employment. The small scale enterprises do not offer the employees the same wage level benefits and protections earned by larger firms in the formal sector. For most small scale enterprise activity is distinctly inferior to a job in the formal sector, but a small scale enterprise job is better than no job.

In view of the lopsidedness of demand and supply of credit in the formal sector it is suggested that NGOs may be used as conduits to distribute formal sector credit in the informal credit market. Bangladesh has some of the finest NGOs and the most noted is the Grameen Bank. Most NGOs have directed their efforts in creating income generating activities for the landless and a few achieved highly favourable performance in serving the needs of small farmers.

But very few NGOs are linked to formal financial conduits. Consequently their capacity to expand credit services is largely dependent upon external funding. It has been sufficiently proved by now that because of cumbersome and highly centralised lending procedures, the absence of loan supervision, insufficient numbers of field staff to impart basic skills the ability of the formal sector to serve the rural and urban informal sector borrowers is effectively limited.

It is, therefore, recommended that formal institutions should be encouraged to have closer relationship with informal conduits, particularly NGOs to retail credit. With the Financial Sector Reforms, the commercial banks have auton-

omy to choose their own loan portfolio and except the NCBs other PCBs have no incentive to invest in the informal credit sector.

Credit is the outcome of savings in the economy which result in investment and creates income. If Taka 2,500 crore remains unutilised effectively it means a lowering down of the effective demand in the economy resulting in lower investment, lower income and lower expenditure that is the famous "Vicious circle". Credit has been recognised as a binding constraint on development, preventing entrepreneurs from investing or undertaking activities which are socially desirable. Therefore, credit, in our context, is a catalyst for development.

It is paradoxical that donors are funding our rural credit programmes when the formal credit sector is awash with excess liquidity. To absorb the excess liquidity, a delivery mechanism may be developed linking the formal and the informal sectors.

The Finance Minister recently disclosed that he was worried about the delivery mechanism of credit to the rural and informal credit sectors. We expect some efforts should be made by the government to link the formal and informal credit sectors. Instead of closing down the rural branches of the formal sector credit institutions, we could create another Bank on the Grameen Bank model or re-structure at least the Bank of Small and Cottage Industries or the Grameen Bank model.

Development of micro enterprise is a unique way out for the banks to lend their funds profitably and with assurance of repayment. The recovery rate of the NGOs is about five times higher than those of the formal financial sector institutions who generally lend only to big borrowers going for capital intensive technologies. The development strategy of Bangladesh perforce has to provide for investment in off-farm activities and cater to promotion, development and financing needs of small and micro industries business as a strategy for reducing unemployment. The present "trickle down approach" has been discarded even in the USA. We, of course, recognise this fact but so far have done nothing concrete to bring about an equitable distribution of our investible resources between the formal and the informal sectors.

I may conclude by stating that Grameen Bank model is being duplicated in USA, Canada, Chile, Malaysia, the Philippines, India, Pakistan, Cambodia and even Vietnam. This is high time that we convert and restructure the NCBs to wholesale credit to dedicated NGOs with proven track record and devise mechanism to discover the potentials of future Dr Yunuses.

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