

## Post-cyclone Needs

As clearer pictures of the devastation wrought by last week's cyclone emerge, we are becoming increasingly convinced that loss of lives has indeed been minimal, though not negligible where human lives were involved. But the loss to properties has been beyond description. Now in the aftermath of the cataclysmic visitation, the victims are naturally exposed to nature's elements. Their homes and hearths destroyed, most people of the affected areas are in need of immediate help at this time of their distress. The government relief efforts, by all indications, have not yet been able to reach succour to the cyclone-affected people everywhere and sufficiently.

After an initial assessment of the damages, the government has made its position known: that it does not want to seek foreign help but if any country volunteers to give assistance, the same will be accepted with thanks. This can be interpreted as the administration's capacity to handle the situation on its own. We have no doubt about its ability to do the job. But what we would like to point out is that an emergency situation such as this calls for mobilising all the resources of the country for the relief effort.

We are noticing with dismay that political diatribe has started between the ruling party and the opposition over the respective merits of their handling situations, the BNP government during the 1991 cyclone and the AL government now. We think what is primarily at issue is the plight of the victims which needs to be attended to without any distraction whatsoever. The opposition may point out the government lapses in relief distribution and at the same time the government could have its own version; but the overall attitude on both sides should be to help matters, not enter onto a political duel. Dangers of cataclysmic proportion should at least remove the political divide for sometime. Why not stand by the victims together by conducting an integrated relief operation?

If the government and the opposition work together to help the victims, a lot of benefit will accrue. First, they can plan to provide the affected people with the first thing first and coordinate in the rehabilitation work and medical programmes to get the best result possible under the situation.

## CJ's Remarks

Chief Justice ATM Afzal has minced no words in expressing his dismay over the performance of subjudges and assistant sessions judges while awarding certificates to them on Friday at the end of a training programme they had attended.

Coming from a person who is at the apex of a justice system his diagnostic remarks about where things are going wrong at the lower tiers must be deemed to be of great meaning, authenticity and force by all concerned.

And that he has shared these with us in a forthright manner will only help increase public confidence in the highest judiciary which is manifestly initiating a process of introspection among the subjudges and assistant sessions judges.

The honourable Chief Justice has given us a gem of a quote to this effect: you do not need tall talks like rule of law, independence of judiciary and enforcement of human rights .... all such good words would be automatically implemented if everyone discharges his duty properly. The emphasis is clearly on sincerity, application and hard work, sterling qualities that can help accomplish many things in spite of all the limitations and constraints one is wont to citing when faced with criticism.

He has asked the junior judges to speed up disposal of cases at a rate of more than six in a month, ensure the quality of judgements that sometimes land on the doorsteps of the higher courts and contain the appetite for posting to Dhaka ignoring the need for judicial work in the outlying areas.

The ends of justice will never be truly served so long as these pitfalls are not avoided.

## Rural Infrastructure

Many people who have been to the interior tend to marvel at the shiny road stretches that today criss-cross Bangladesh, little realising that sordid tales lie buried under the lustre and silken smoothness of the bituminous exterior. The network could be still better in terms of mileage and uniformity in quality.

We have an authentic view on the subject from no less a quarter than the World Bank itself, the horse's mouth, as it were, from whom we regularly receive funds for rural infrastructure development. A WB study report reveals with a startling effect on the gullible who were going gaga over the picturesque thorough-fares that a yawning gap exists between the infrastructure development planned and the physical targets actually met over the '85-95 decade. The achievement falls short by as much as 61 per cent. Imagine how much more spectacular the infrastructural picture would have been with the missing networks of roads and markets in place! We have today 8,400 kilometres of feeder roads and 78 thousand kilometres of rural roads making up a rural road system that has about 'one gap' in every two kilometres which is technically regarded as an impediment to rural mobility.

The World Bank visualises, the total financial requirement for maintenance and development works at Tk 12,660 crore over the next ten years. Bangladesh needs raising a greater proportion of internal resources for the purpose than before, although the World Bank is expected to be forthcoming on this having research-based knowledge on the subject.

Equally important is the quality aspect of the roads coming up. It is often said that where local contractors were used the work has been sloppy. This has to be borne in mind with an overall stress laid on the standards of roads being planned.

# Twilight of the Stock Price Debacle in Bangladesh

by Dr. M Farid Ahmed

*It is possible that a temporary supply of ordemand for an extraordinary large amount of securities takes place sometimes. This may upset the balance between demand and supply. In order to stabilise the market, it is necessary to conduct some price supporting activities. Such activities are specially needed when the market is dominated by speculation and rumour.*

STOCK prices, in general, are determined by the interaction of demand and supply. Stock differs from other consumer goods to the extent that stock itself can't directly be consumed like other consumer goods rather the income generated by it can be used for consumption purposes. Accordingly, determination of a stock price may be governed by the volume of net assets it holds. However, in spite of its considerable bearing on the price of a stock, net assets are, in a sense, the liquidation value of the enterprise and thereby not considered most suitable measure for a going concern. Basically, the most important aspect in the stock price mechanism is the amount of earning the investor's money will realise in a certain period. This is usually related to the dividend rate which can play a crucial role behind demand and supply relationship and thereby price formation.

An anticipated future dividend is subject to uncertainties and influenced by many economic and non-economic factors. Fluctuations in security prices are the function of a variety of factors. Interest rates, industrial production, commodity prices, savings, investments, population, employment, political and economic changes, corporate profits, earnings or dividends, investors' feelings etc. are the prominent ones that can influence stock prices. As a result, many indeterminate factors come into play to complicate the pricing mechanism.

### Stock Trading

Stock exchange is the legal platform for trading in the secondary market. Trading is conducted by the broker—members of the stock exchanges in Bangladesh. An investor can associate himself with the stock exchange trading only through a broker whom he can approach to execute his buy or sell order. DSE brokers are allegedly taking unnecessary long time to execute the order which often goes against the interest of the investor. In order to execute an order to buy or sell securities on behalf of his client, a broker is supposed to provide services at the time of executing a sell order as well as provide services and funds for a buy order. He charges a commission for such services which is 1 per cent of the total value of the transaction. Thus, the stock markets in Bangladesh predominantly operate through

the agents without any responsible market makers. The members of the DSE do not operate margin accounts for general investors. There is no provision in Bye-laws of the Exchange for undertaking market making roles.

While the stock exchange brokers must carry out trading of the listed stocks on the floor of the exchange in principle, off floor-transactions are carried out through a kerb market in Bangladesh. Trading of shares during floor trading hours as well as beyond trading hours is conducted among large number of interested investors assembled outside the stock exchange. Transactions are usually conducted through physical delivery of share certificates in the kerb market. Very often transactions take place at a distorted price. Fraudulent practices entrap people through trading on the false certificates have become a regular phenomenon in the country's kerb market centering the DSE. The unregulated kerb market has exacerbated the stock market manipulation and inflicted extensive damage to the market. Such unregulated markets, if not guided properly, might have negative impacts on sound development of stock markets.

The market operates through an open outcry with broker-members seated around a table with no access to outsiders. Dealing prices are recorded with a chalk on a black board by a member of the stock exchange staff. By the standards of large stock exchanges in developed countries, the technology is simple and not subject to technological failure. For a market of this size, the trading arrangements can, by and large, serve the purpose. However, in view of the growing size of the market, frequent allegations about the market manipulation, and recent upsurges followed by sharp downswings credibility of the system as a whole has been brought into question. Computerisation of the trading system and introduction of a central depository system (CDS) can bring improvement of the situation.

Under central depository system for securities, transac-

tions in securities are cleared on books merely by entering such transactions in the accounts concerned, with the stock certificates held in custody by a certain agency, instead of physically delivering them after each transaction.

Since this system offers the advantages of rationalising the depository and delivery of large number of securities as well as preventing possible loss or misplacement, it has been in use now a days in many countries. Physical delivery of share certificates is not permitted under CDS. Consequently, people will be discouraged to go to the kerb market and thereby it may reduce the dominance of this market. It is true that computerisation has proved efficiency, accuracy and speed of trading in many markets. But liquidity of the market may suffer from entire computerisation. Order flows are generated, although at least partially, by subtle interactions of human activities on the floor, including behaviour of the rivals, floor atmosphere, floor gossip and so on, all of which can hardly be held by computer. That means prices might be overshooting or undershooting if traders are just reacting to price moves on the screen without well understanding the reasons behind such moves.

This may result in rather market volatility due to lack of exchange of information among the traders. The system, therefore, needs to combine the advantages of the technology—efficiency, accuracy and speed—with those of human interaction, visibility and information exchangeability on the trading floor so that maximisation of liquidity and better market coordination can take place.

### Recent Price Swings

In the history of Bangladesh stock markets the most significant event occurred in 1996 when the market behaved irrationally. In DSE all share price index rose from 770 in January 1996 to about 3,700 points in the first week of November of the same year. But it plunged to 2,261.47 points on 29 December 1996 and again to less than 900 in April 1997. This abnormal price swings have taken place

ignoring all micro— and macro— economic fundamentals. The price of shares of a company, having negative worth, increased three to four times. Even share price of a closed company also increased. The abnormal rise in share prices created an urge for mindless gambling among the various segments of people. Some people took the situation to become rich overnight. Suddenly the market started experiencing nightmares as the overpriced share market began sliding toward its rational level every day and subsequently crashed.

The alarming fluctuation created a serious tension among investors. It is difficult to segregate any single factor responsible for this price upheaval rather a combination of some factors including some policy issues might have contributed to such development. The likely candidates that might have some bearing on it are price manipulation on the exchange, lack of proper implementation of a circuit breaker, withdrawal of lock-in system, absence of institutional traders on the exchange, lack of aggressive campaigning about economic fundamentals and its grave consequences and the like.

Fluctuation in equity price is a usual phenomenon throughout the world. It is possible that a temporary supply of or demand for an extraordinary large amount of securities takes place sometimes. This may upset the balance between demand and supply. In order to stabilise the market, it is necessary to conduct some price supporting activities. Such activities are specially needed when the market is dominated by speculation and rumor. A circuit breaker implying a price limit and trading halt may work to stabilise the market especially when investors behave rather irrationally. The concept of a circuit breaker is not a new one. Yet it is one of the most controversial issues among all financial discussions. In the final analysis it is explained as a trade off between financial efficiency and stability. When one emphasizes financial efficiency, he must do it at the cost of more systematic instabili-

ties. Similarly, when one emphasizes financial stability, he must do it at the cost of more competitive inefficiencies. The choice will depend upon the circumstances in which the market is situated and eventually upon the value judgment of a society. It is found in many countries in some form or the other and the rules are framed according to their respective needs. Advocates of efficiency objective contend that a circuit breaker would unduly delay price discovery, injure the investors forcing them to accept 'incorrect' prices anticipating trading halt. It is also argued that it causes deprivation of hedgers from market use when it is most needed. On the contrary, opponents argue for effectively limiting financial risks and hence systematic instability in critical times. They also contend that it may even facilitate price discovery by providing a 'time-out' during which counter orders can be generated.

Bangladesh's market is relatively small even if it is compared with other emerging markets of South Asia. The presence of foreign portfolio managers with their huge fund can easily create an imbalance between demand and supply. This is needless to say that they will try to manipulate price with their profit motive. In view of the market condition of Bangladesh, financial stability needs to be supported by the authorities concerned and hence a circuit breaker may be of help if executed effectively considering the cause of overall market development instead of the interest of any individual party. Simultaneously, wide campaigning through media against such irrational behaviour and their consequences also need to be conducted. Legal measures should be instituted and executed effectively by the authorities concerned in order to contain manipulation of stock prices.

The implication of the withdrawal of lock—in system in the market is a subject of empirical investigation. However, it is unlikely to be positive in the market condition of Bangladesh. Experience of undertaking reform and stabilisation programmes shows that

countries are prone to excessive foreign funds that ultimately prove unsustainable behaviour leading to financial market failure. This is because excessive optimism is created among domestic and foreign investors and the policy-makers. Although better economic performance and large inflows of foreign capital justify such optimism initially but afterwards it does not sustain in general resulting into a recession, crisis in the financial markets and capital flight.

Investment in stock markets of Bangladesh by the domestic investors has got some momentum only recently that needs to be retained. Recent volatile stock market behaviour is likely to have its negative impact on sound market development. The authorities should impose financial controls in an appropriate form to limit the potential damage. Regulations of cross-border transaction of financial capital are suitable tools. In the light of the experience of successful liberalisation programmes undertaken by East Asian countries in 1960s and 1970s, such moves appear to be appropriate in the context of liberalisation and stabilisation policies currently being pursued in Bangladesh.

### Conclusion

Anyway, securities markets provide investors a means to trade freely and timely, issuers to raise funds cheaply and smoothly and the economy to allocate resources efficiently. But the securities markets in Bangladesh have not yet developed to accomplish these functions at a desired level. Institutional structure has also been suffering from various limitations. Lack of professionalism, alleged oligarchy among the exchange brokers, weak legal framework and execution thereof have significant impact on securities market development. Price manipulation and other market abuses like insider trading, underhand dealing and the like are likely to stem from such situations. The efforts need to be directed toward eliminating these weaknesses of the market. The authorities concerned should continue their efforts to such areas like broadening the active membership of the exchange, ensuring fairness and transparency, enhancing professionalism, increasing the number of securities listed, integrity, stability and liquidity of the market and so on.

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# For Ensuring Transparency in Corporate Income Taxation System

by Mushtaq Ahmed

*In certain situations and for making tax assessments and their finalisation easy, transparent and quick, our tax laws in 1990 provided a very convenient method at the disposal of our tax assessing officers.*

AS our country's next budget is being formulated and the changes to our tax laws are being conceptualised, discussed and given shape, I put forward two issues which are very important and which, in my view, demand immediate attention of our respected tax law makers.

The urgent need of provision for bad loans for the sake of financial health of our banks: Bangladesh Bank's strict mandate for making provision versus the diametrically opposite damper applied against such provision by Income Tax Department

The stark injustices meted out to our banks unabatedly continue — not to speak of the one more effective step of trying to make our already cumbersome tax laws more non-transparent by our successive finance ministers and our distinguished finance secretaries and executives and officials at the helm of the National Board of Revenue. I have personally dwelt at this particular issue many times and at many forums, although without any luck so far. But since this issue continues to come back to me with a consistent repetition in my professional practice, I feel not inclined to give up in the interest of natural justice and fair play in the realms of taxation and framing of our tax laws. Let me make one more attempt to explain the situation.

Prior to passage of June 1990 budget all provisions for bad loans made in the books of account of banks were summarily

disallowed for tax assessment purposes. One can see how big a disincentive it was for the banks in accounting their known loan losses as an expense and at the same time a boon for inflating both their profits and the loan portfolios with all their inherent ramifications. In the June 1990 budget this disincentive was removed from our tax laws and a tax deduction for provision for bad loans, based upon loan portfolio classification and approval of Bangladesh Bank, was allowed to the banks up to a maximum of 45 per cent (increased to 5 per cent in 1994) of total outstanding loans including all interests under clause (xviiia) of section 29 of the Income Tax Ordinance 1984 on the condition that such a provision is actually made and shown as an expense in their books of account.

This was prompted to level with the pronouncement of Bangladesh Bank made, at the behest of the donors, immediately before, in 1989. Bangladesh Bank had then mandated that all doubtful interest income was no more to be accounted for as income in the banks' profit and loss accounts but be kept hanging in balance in Interest Suspense Account until actually realised in cash from borrowers making it then

qualified to be treated as income and thus accounted for in the banks' books of account as well as profit and loss accounts. Subsequently, in 1994, Bangladesh Bank wrote to National Board of Revenue recommending non-imposition of tax on such Interest Suspense with full justification. But the Tax Department, disregarding Bangladesh Bank's recommendation, started — and to date continues — with some variation, the practice of adding such doubtful, notional and unreal income to the actual and realised income of the banks and taxing on equal footing the sum of the two types of income — one unreal, the other real.

As a result of persistent persuasion, this tax treatment was realised as being highly unfair and injurious and eventually Finance Act 1996 brought about an amendment to section 28(3) and mandated not to tax such Interest Suspense any more until realised in cash by the banks. Up to this, the decision was fully justified and very fair — although long overdue. But, surprisingly, the justice done with one hand was, at the same time, taken away by the other. The decision not to tax Interest Suspense was made conditional to not allowing the legitimate deduction of provision for bad loans up to the said maximum

of 5 per cent of total outstanding loans by adding a fresh proviso (although not very well worded) to the said clause (xviiia) of section 29.

What therefore happened is that insertion of the said proviso negated the whole thing by equating Interest Suspense with Provision for Bad Loans made in the books of account of the banks thereby taking the matter back to the proverbial square one. The rationale was that an assessee should not and cannot be given benefit for the same expense (Interest Suspense) twice. Unfortunately, it has not been realised by the Tax Department (and this leads to all the subsequent problems) that a bank's claim for provision incorporated in its profit and loss account has absolutely nothing to do with its Interest Suspense not incorporated in its profit and loss account as the said amount of provision, allowed up to 5 per cent of total outstanding loans, incorporated in its profit and loss account is always arrived at after deducting Interest Suspense from the total classified loan account values and therefore that Provision, thus netted off, does not include any part of Interest Suspense. The two elements erroneously being considered at par by the Tax Department are two different things and attempting to counter or balance one with the other is not only illogical and unfair but wholly wrong.

Before the passage of Finance Act 1996 a bank was asked to pay tax on a sum by unjustly and illegally adding Interest Suspense to the bank's declared income. The impact is clear. The bank was asked to pay tax on Interest Suspense which it did neither account for as income in its books nor did actually receive. This tax could only be paid out of its depositors' money! The state of affairs was bad and chaotic enough, with all the banks naturally disputing and filing appeals against such assessments — but the doors for filing the appeals were kept open for the banks. So far, to the best of my knowledge, no bank has accepted this kind of illegal and unjust assessments and paid any tax ever on such Interest Suspense, nor the courts of law have given their final verdict on these appeals filed by different banks.

Regrettably in quest of giving justice to the banks, a greater damage was done by Finance Act 1996. Let me explain how. This Act did two things simultaneously: (1) It took Interest Suspense off the hook and away from the taxman's axe by making it taxable under section 28 only when actually received by the banks in future — earning a tremendous amount of gratitude and respect from the banks. (2) At the same time, it made the already-permitted deduction of Provision for Bad Loans subject to the Tax Department's unjustly and illegally adding and taxing the Interest Suspense. It does not require an Einstein to figure out what Finance Act 1996 has done — it has taken away the right and scope of filing appeals by the banks against such illegal assessments and imposition of unjust tax on Interest Suspense.

Put another way, Interest Suspense has been belatedly ordained to be taxed only when realised in cash, on the condition that the deduction for provision for bad loans allowed to the banks since 1990 be stopped forthwith. Again, analysing the effect of this bad law is not very difficult. Banks will again start shying away from making adequate provision for bad loans in their books on different pretexts — the prime one being their non-allowability for tax purposes as prevalent prior to 1990. Who will be responsible for permitting the perpetuation of the financial curse created by the banks, which has since 1980 eaten up about 5 per cent of our GDP, and which is being shamelessly tried to be cured with the country's poor taxpayers' money to the tune of thousands of crore of Taka annually by way of recapitalising and replenishing the banks' lost capitals? When will we

wake up from our slumber? It's already unardonably late!

One would only hope that the situation will be remedied by our Finance Minister by keeping the amendment to section 28(3) intact but dropping the proviso inserted in section 29 (1) (xviiia) retrospectively from July 1996. Let us make our tax laws transparent as keeping such an unjust and ambiguous provision in our tax laws does not auger well in the backdrop of demands of time when the economy is opening up for reforms and we expect to compete with other reforming economies in the region and to attract domestic as well as foreign capital toward economic investments in the country.

2. Fresh attempts to negate the existing practice of finalisation of tax returns as filed by taxpayers along with auditors' certificate under section 82

In certain situations and for making tax assessments and their finalisation easy, transparent and quick, our tax laws in 1990 provided a very convenient method at the disposal of our tax assessing officers. In those situations if the tax return filed by the taxpayer was accompanied by the concerned auditors' certificate, the return was to be accepted as correct by the tax officer with no questions asked. Of course, auditors were exposed to very serious punitive measures if they willfully signed an incorrect certificate. The auditors have very courageously braved the situation and have issued such certificates. The biggest beneficiaries of this simplified method have been the foreign companies which were for the first time excused from the rigmaroles of attending the tax offices for never-ending hearings, receiving whimsically and illogically drawn out assessment orders full of litigation-prone additions to income as well as disallowances of legitimate business expenses, consequent filing of appeals and going through the arduous processes of obtaining justice/injustice from different levels of appeal-disposing authorities — each time paying along advance taxes on disputed tax demands, etc. This has been a step in the right direction to ensure quick collection of taxes, reduce unnecessary and uncalled for paperwork of the assesses as well as of the tax officers and appellate authorities, relieve the taxpayers from the tension they had to compulsorily undergo with their tax assessments.

While formulating the next budget and enacting changes in our tax laws one sincerely hopes that the scope of this simplified, convenient and quick method of taxation will be enlarged for the sake of transparency for everyone concerned and justice and quick disposal of tax cases for the taxpayers, and any or all attempts to reverse the process or thwart the mechanism already in place will be severely dealt with and crushed.

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## To the Editor...

### "Railway bridge over Jamuna"

Sir, This refers to the letter of Mr AKM Shamsul Hoque, former chief Engineer, JMBA & RHD in your daily, published on May 18, 1997. The issue of a separate Railway Bridge needs attention before time runs out. There is a proverb in Bangla, "A stitch in time saves nine." We now realise how true the proverb is. The construction of a broad gauge railway line on Jamuna Bridge should have been thought to start with. Probably, the concept of inter-regional and international cooperation was not thought of. Just an addition of modest fund could enable us to get a dual gauge (meter and broad) which could easily help the region for 'globalisation'. Time has already proved what a short-sighted policy we adopted before. To prevent another short-sighted policy, it is time now to think about another railway bridge on Jamuna and convert the present bridge into full-fledged 4-lane bridge by making good use of present space for railway track. This is the time for making the crucial 'one stitch'. Otherwise the nation will need 'nine' later.

The separate railway bridge will solve two problems. First, we will have a dual gauge

(MG+BG) railway line. Second, we will have a full-fledged four-lane bridge that will be appropriate for Asian Highway. If we don't act (i.e., putting one stitch), right now the present one lane and one breakdown lane in either direction will prove quite inadequate, and therefore we may have to go for 2nd and 3rd ones like Bosphorus bridge to connect Asia and Europe, as mentioned by Mr. AKM Shamsul Hoque. As estimated by Mr. Huq, the cost of a separate railway bridge will be only about 150 million US dollars. The cost will be manifold if we delay, because the chance of making good use of present space for railway line will be lost by that time.

Since the present government believes in inter-regional cooperation and 'globalisation', I would like to draw the attention of our Communication Minister and Prime Minister on this issue.

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### The British Election

Sir, I have read the article "The British Election: Do we have something to learn?" by Dr. Khandakar Quadrat-Elahi

published in your daily on 18th May, 1997.

While trying to identifying the causes of poverty in Bangladesh democracy, the author has "indeed identified the true factors responsible for the crises in our political system" and has quite accurately quoted Maudud Ahmed.

Mr. Maudud Ahmed is always changing his political colours suiting to his personal convenience, being himself a political beneficiary of these "three factors responsible for the crises" but writers about the democratic principles and values while he himself is constantly raping the chastity of democratic culture.

People like Mr. Maudud must immediately be garbaged and this is what 'we have something to learn' from British Political custom, which the visiting professor from Canada could not identify.

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### On having enemies

Sir, Who says the Awami League has no enemies? All successful people have enemies, and are the victims of envy and jealousy.

The latest breakdown in the

electric power national grid on May 4 due to the deliberate or accidental blowing up of a transformer at a critical junction is once again suspected to be the second act of sabotage. But the funny argument is like a double-edged sword. Some say, it may be work of those who like to import power from a civilisation 5,000 years old (!); while the other camp put the blame on those who are against the import of foreign "power". A professional, employing technical wit, remarked that he had no objection to the import of electricity of the voltage and current were 90 degrees out of phase (in non-technical jargon, it means the power output is nil).

As a patriotic citizen, with limited knowledge, my imagination visualises keeping under watch the following areas (out of a large check-list) for undesirable activities. Implantation of computer virus in the public, fiscal and other sensitive networks; bugging of hotlines, anti-graft missives; blockage of sewerage pipes; bursting of water pipes; printer's devils in the new, sanitised text-books; use of truth serums on patriotic workers.

A Zabr  
Dhaka