

Japan offers \$1.1b concessional loan to India

NEW DELHI, July 26: Japan has offered India concessional loans totalling 1.1 billion dollars for the financial year ending March 31, 1998, a senior Japanese official said on Thursday.

Nobuaki Tanaka, Deputy Director-General in Japan's Foreign Ministry, told Reuters the yen loan package was nearly identical to a dollars 1.15 billion mixture of loans and grants in the 1996/97 fiscal year.

Tanaka said the yen loan package was finalised during a meeting earlier on Thursday between Japan's Foreign Minister Yukihiko Ikeda and Indian Finance Minister P Chidambaram.

An Indian government statement said Chidambaram had urged Ikeda to push for more Japanese investment in India's infrastructure sector.

The statement said Chidambaram sought Japan's help in securing lines of credit to Indian financial institutions for lending to future private sector infrastructure projects.

"In spite of the very low implementation rate we continue to pledge almost the same amount every year," Tanaka said.

"We have expressed our unhappiness about the low implementation rate to India's Finance Minister."

The Indian statement said Chidambaram had told Ikeda New Delhi, "had put in place new procedures for monitoring disbursement and this may help New Delhi to overcome some of the current problems of low disbursement."

Tanaka said: "India seems to have a very solid bureaucracy. They have entrenched interests and they find all kinds of excuses to demonstrate their existence by obliging the Japanese side to do this or that."

FAO forecast

World cereal output to rise this yr

The world trade in cereals in the current fiscal will be about 189 million tons, which is nine per cent below the volume traded in the last fiscal and the lowest volume since 1990-1991, a forecast of UN Food and Agriculture Organisation (FAO) said, reports BSS.

FAO in a preliminary forecast world cereal production will be around 1880 million tons in 1997 which is seven million tons higher than the last year.

The global wheat output will be 590 million tons which will be almost unchanged from the last year, the production is expected to rise in most of the areas of Asia, Europe and CIS but less crops are anticipated in North Africa, South America and the Oceania, the FAO forecast said.

World production output of coarse grains including barley, rye, maize, etc, will be 910 million tons this year, the FAO said.

Production of coarse grains is expected to rise in South America and the CIS but the production will fall in Africa and Europe, the forecast added.

It said, global paddy output in 1997 could be around 565 million tons, almost unchanged from the previous year.

Equity financing in Bangladesh: Some policy issues — Part-III

It is difficult to imagine the rapid expansion and strengthening of the securities markets within a short span of time in a situation of political, economic, financial instability, and structural impediments prevailing in an economy like Bangladesh.

A suitable base for financial stability must exist before an active securities market can develop and this is essential in order to win the confidence of the investing public in the instruments traded on the exchanges.

In the absence of these conditions it is difficult to mobilise savings and to have a properly functioning capital market. However, stability should not be equated with simply maintaining the *status quo*. For long term stability the structure must be capable of anticipating and assimilating evolutionary change.

The need for stability in the broadcast sense cannot be overemphasised, but this does not mean resisting change; instead the priority must be to ensure that change is allowed to evolve in a reasonable and systematic way. Usually, once the public loses confidence in the process of growth of the market, liquidity declines and the process of collapse continues.

In the present context of Bangladesh, establishment of efficient contractual institutions in private sectors like a mutual fund which presupposes a relatively developed capital market is not likely to come about shortly. Even if such institutions are set up in the private sectors, there is no certainty that they would be able to

acquire sufficient return generating good quality securities in requisite quantities and satisfy the market demand.

In fact, at the present stage of development of the country, the banking system — commercial, investment and development banks — needs to play a dominant role for financing economic development.

Historically, corporate sectors in Bangladesh are less dependent on equity markets and more on bank loans or internal finance. It would then appear that a reorientation of the functions of the banking system in Bangladesh is far more promising and practicable than a swift change in the pattern of asset choice of mass savers.

It is even conceivable that the banking institutions, operating within a circumscribed framework to prevent financial vicissitudes, may display initiative and enterprise reminiscent of the Credit Mobiliser and the German 'Universal' banks.

However, heavy reliance on banks for long term funds may sometimes lead to an extensive increase in money supply or even dispose some of the securities on the face of tight monetary policy. This may cut off the flow of long term funds unexpectedly entailing demoralising effect on the capital market.

Of course, it is not difficult to contain such undesirable developments through suitable measures to be worked out in advance.

In spite of the importance of banking system for corporate financing in the initial stages of development, necessary measures must be directed to remove the discrepancies and odds in

the capital markets so that demand for and supply of equities are matched.

It is desirable that the government should proceed with positive steps to have an integrated programme where the different segments of the financial market will be given due consideration in an orderly fashion.

For working of efficient operation of the capital markets, government policy can motivate the fundamentals of it, particularly with regard to:

1. Expansion of participation and ownership base in the industrial sector, its attitude toward monopolies and restrictive practices.

2. Overall credit control mechanism including the level of interest rates.

3. Taxation allowing special incentives and disincentives which can inspire the investment, reinvestment and industrialisation of the country compatible with the national objectives.

4. Encouragement for the gradual development of an institutional structure that will influence industrialisation and financing including securities companies, investment banking in the private sector and enhancing the efficiency of the existing specialised financial institutions and commercial banks.

Apart from the various aspects of the general economic framework, there is also the indisputable need to institute and implement appropriate regulations and standards covering such issues as the rules of conduct of stockbrokers, accounting and auditing standards and

By Dr M Farid Ahmed

so on. Accounting and auditing standards are particularly important since poor financial reporting will necessarily entail substantial tax evasion and substandard investment decision in any country.

Brokers, sub-brokers and dealers should be honest but the reality of Bangladesh does not conform with the notion in many cases. Brokers' activities are not satisfactory in many countries, not only in Bangladesh. The core of the problem revolves around the conflict of interest arises mainly from the role of a broker as an agent, and the personal economic freedom for the broker to trade on his own account, underwriting new issues, acting as company promoter or director etc.

This creates distrust among the investing public about stock markets. It is difficult to make a clear-cut boundary of their activities and therefore, it is desirable that their activities and responsibilities are to be determined through exchange of expert opinions. Then those should be well publicised and supervised by the concerned authorities.

In the past the stock exchange council in the UK has been the main focus of control over the activities of its members and it has been authorised to reprimand, suspend or expel any member who violates any of the rules or regulations of the exchange, fails to comply with any of the decisions of the council, is guilty of dishonest or disgraceful conduct, acts in a manner detrimental to the

market (Soughal Manakh), where shares of new companies and of other companies in the Gulf, were traded.

Again, about 40 companies' shares were traded, but payments with postdated checks created a forward market in shares and the bubble burst in September 1982. It is, therefore, advisable for the authorities responsible for stock market regulation to follow a path in between under-supervision and over-supervision. Investors should have confidence but not feel overprotected.

Concluding remarks

Divergent opinions about the contribution and development of equity markets prevail among the academics and practitioners. There are indeed obstacles, inherent in the nature of underdeveloped economies like Bangladesh, to the germination and rapid development of securities markets. However, the constraints are not as binding as they appear at first sight.

It appears to be pertinent to note that the appropriate policy for a country will depend on the condition of socio-economic structure prevails there. Appropriate supply and demand inducements may have proved to be effective.

Alternatively, it may drive it underground, as happened in Kuwait. There the well-regulated official market, with only about 40 quoted securities did not provide sufficient opportunities for the financial community. This led to the development of the unofficial

market (Soughal Manakh), where shares of new companies and of other companies in the Gulf, were traded.

Encouraging trend in recent years is observed in the growing participation by domestic as well as foreign investors in Bangladesh stock markets. Such investment can increase the level of activities of the markets and the financial resources to domestic firms. But it is unlikely to serve as a source of adequate long term funds solving the problems of savings mobilisation, investment and growth at the early stages of development.

In view of the present stage of market development associated with various legal and structural constraints as well as corporate practices of the country, there is reason to believe that the development of close relations between banks and industry as a means of promoting economic development appears to be unavoidable.

Increased savings by all classes of investing public and the utilisation of those savings for productive investment, requires the existence of an appropriate network of savings and credit institutions, in particular an efficient banking system.

Development banks are an invaluable source of long term funds in developing countries like Bangladesh. Likewise, surplus funds of the commercial banks can also be made available for industrial financing through efficient maturity transformation.

Pressures for developing the internal efficiency of these institutions may straighten the efficient use of funds. It should be remembered that efforts to

speed up the development of the equity market, although laudable, may not lead to immediate tangible results in the face of various fundamental weaknesses inherent in the market condition of Bangladesh.

Despite the desirability of direct financing, it seems more desirable to give emphasis on indirect financing through financial intermediaries until a later stage of development of the country.

Indirect financing should not be considered as impediment to the development of capital markets, but as a necessary step prior to, and as facilitating long term enduring growth of the latter.

For promoting economic growth, direct and indirect financing should be considered as complementary but not mutually exclusive. It does not mean ignoring the equity segment of the financial system rather the emphasis needs to be given to other so-called secured vehicles for fund mobilisation.

Simultaneously, regulatory authorities continue supervision of the market development in general and the trading activities in particular to make shares and bonds as attractive investment vehicles.

In the absence of such supervision, investors may justifiably feel too exposed to various market abuses including market manipulation and investment in security markets may decline undesirable.

The author is Professor of Finance, Faculty of Economics, at Nagasaki University of Japan. (Concluded)

Motia urges agri scientists

Evolve cheap technology to help boost production

The Minister for Food and Agriculture, Motia Chowdhury, yesterday urged the country's agricultural scientists to evolve less expensive technologies for the farmers to help them boost agricultural production, reports BSS.

Inaugurating a seminar on "Agriculture research and development in Bangladesh: Present and future" organised by the Bangladesh Association for the Advancement of Science in the Teachers-Students Centre auditorium of Dhaka University, Motia Chowdhury suggested that manually-developed technologies should be provided to the country's financially-in solvent peasants.

Presided over by the president of the association Dr. M A Wazed Mia, the inaugural function was also addressed by its general secretary M Junab Ali, Director General of Bangladesh Institute of Nuclear Agriculture Dr. Anwarul Quader Shaikh.

Motia Chowdhury said the remarkable progress had been achieved in the field of agriculture by the farmers despite lot of obstacles in the past years.

She said the use of high yielding varieties as evolved by the scientists had also helped the farmers in increasing agricultural output.

Referring to the scarcity of land compared with the high population, the minister said efforts must be made to cope with this hard reality of the country.

On fertiliser management, Motia Chowdhury said, a number of farmers lost their lives in the past due to the wrong management in fertiliser distribution.

In his speech Dr. Wazed Mia underlined the need for strengthening the bases of all sectors, including agriculture, and ensuring the leadership of exports and experienced people in their respective fields for overall socio-economic development.

In his keynote paper, Dr Anwarul Quader Shaikh said rice and wheat production had increased from 10 to 19 metric tons and 0.1 to 1.3 metric tons per acre respectively during the period of 1971-72 to 1995-96.

She said that agriculture policy would be formulated soon on the basis of the report of the commission on agriculture.

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