

EC-Bangladesh Relations Can be Closer Still

While Dhaka's ties with the Union is fairly cooperative, efforts can be made to further strengthen this relationship so as to become more closer to the ever-growing crucially important European forum.

BDANGLADESH'S multi-faceted relations with the European Commission constitute a major segment of Dhaka's foreign policy priorities and so far the relationship has worked quite satisfactorily for the country in the sense that it has benefited from different programmes of the Commission designed for the developing nations. In fact Bangladesh is one of the major recipients of the EC assistance in the Third World and this reflects the kind of priority the EC attaches to this South Asian nation of 120 million that makes relentless efforts in improving the quality of life for its people in addition to the onerous task of attaining the national development in the key areas like agriculture and industrialisation.

Nevertheless, given the importance of the 15-nation European Union which is growing at a fast pace and in view of the greater role as well as the integration that the Europeans are keen to demonstrate in continental and international affairs, it will only be desirable that Dhaka's ties with the important group can still be increased in various fields and this will work both ways. The European Union definitely stands on the threshold of emerging as a more monolithic forum with identical policies and approaches in many issues like fiscal and foreign policy and even also in the area of defence in the context of common security much to the willingness of all the member states despite the slow progress made in some of the areas that are rather quite complex in nature.

Undoubtedly, the EU is now more seized with the issues like introduction of the single currency in Europe — the 'Euro' which once was not being participated by a leading nation like Britain as well as the question of enlargement of the Union as more and more nations of the continent are keen to join the group. However, external relations do represent a key constituent of the activities

of the forum and South Asian region can figure more prominently in that framework for a closer link with the group representing more than 370 million people. And Bangladesh, certainly can draw bigger attention and priority from the bloc as there is enormous goodwill for the nation among most of the members of the Union. This was reflected in the concerns expressed by the Europeans at the catastrophic floods that are devastating the country much to the dismay of the international community. Nonetheless, scopes still remain untraced and unexplored to provide a further fillip to the relationship.



Zaglul Ahmed Chowdhury

A group of journalists from this country was invited recently by the joint initiative of the European Commission headquarters at Brussels and the European Journalism Centre (EJC), Maastricht, the Netherlands, for having a closer idea about the functioning of the Union and related organisations. Indeed, the ten-member team was first of its kind both in terms of importance and size at the invitation of the EU and the 12-day trip enabled the group to take a view from proximity of the interesting features as well as the constructive intricacies that govern the functioning of the group in various areas of activity ranging from monetary policies to the performance of the European parliament in Strasbourg in France. Frankly, I was at a loss to understand the different dimensions of the EU activities and interactions in the form of discussions and briefings during this trip have made me conversant with their typical milieu even though my area of in-

terest during the nearly three decades as a newsman largely concentrated on the matters related to foreign policy matters and multilateral diplomacy.

How many here really know that the European Union is totally different from the European Council? While the EU has 15 members and several others are on the queue desirous of becoming members, the European Council has forty members — practically all from the Europe including the Russian federation that became a member only in 1994 with the introduction of democratic practice in the former communist nation. The Union has its headquarters

such an effort is rather difficult. Here in Strasbourg, the headquarters of the 40-nation European Council is located and it is evident that all the members of the Union are the members of the Council but not the vice-versa.

The two are entirely different although they work in close cooperation" said Ms. Cathie Burton, working in the European Council. South Asia is the home of more than one billion people but it receives relatively less attention in the European parliament as well as in the council. Ms Anita Pollock, a member of the parliament and chairman of the committee dealing with this region admits that as a region South Asia should receive bigger concentration. Away in Brussels, Ms. Ruth Albuquerque, Head of the Unit that looks after the Bangladesh chapter, says it is necessary that such countries should get more priority while she adds that the European Union attaches utmost priority to the development efforts of South Asian nations. Bangladesh has high stakes in the European Union in different important matters like trade and business, harmonization of positions on trade issues in the context of the world trade organisation (WTO) particularly export of textiles and shrimps, immigration matters, assistance to agriculture and other areas. The country is receiving assistance in many areas. Lobbying in different forms is an accepted norm of activities in the European Commission's headquarters in Brussels which is now becoming one of the most important city of the world because of existence of headquarters of many multilateral organisations like the NATO and the European Commission. While Dhaka's ties with the Union is fairly cooperative, efforts can be made to further strengthen this relationship so as to become more closer to the ever-growing crucially important European forum.

Securities Market in Bangladesh Issues and Strategies

by A B M S Zahur

Securities market is by far the most difficult for a private investor to comprehend. Learning about the benefits and operations of the securities market will take some time. Such change can be achieved through widespread securities market education and development of qualified financial journalists, improvements in the quality of financial market publications and a better financial education in the universities and secondary schools.

DEVELOPMENT of securities market in Bangladesh actually started in 1991. During the last one and a half years the investors, particularly the smaller ones, have passed through a severe traumatic experience of share market. Some faltering governmental measures to boost share market operations and to regain confidence of the small investors could not show any appreciable positive result.

However, such kind of experience is not a unique phenomenon. Almost similar situations were experienced in Thailand and South Korea in late seventies and early eighties. Thus Bangladesh need not be over concerned. She should, however, proceed cautiously to overcome the problems and to mobilise individual savings to channel them into productive activities.

Among many problems in the securities market of Bangladesh the most conspicuous are limited capacity for fund raising, availability of a limited range of securities, a low volume of secondary market transactions and insufficient strength and sophistication of necessary financial intermediaries.

Such weaknesses resulted in general lack of confidence in securities market. Development of securities market involves isolation of each variable that restricts the supply of and/or demand for securities. Both supply and demand sides must be improved simultaneously, a development of one side at the expense of the other distorts the market.

Privatisation of selected public enterprises can significantly increase the supply of securities. Certain public enterprises, even though they are performing poorly, can be attractive equity investment opportunities for private sector investors. Bonds floated by some public enterprises may attract even relatively unsophisticated investors. This would help create interest in bonds and eventually equities as investment instruments among a wider investing public. The enterprises in which the government decides to retain ownership interest may attract large number of first-time investors to the equity market.

Majority of private sector firms are relatively small and as such their needs for investment funds are modest with larger needs for working capital. Thus they have been able to generate necessary financing from (i) personal loans or their own contributions and retained

earnings; (ii) short-term loan facilities with commercial banks. Some business firms' close family relationships with particular commercial banks enabled them easy loans. Many individual or small entrepreneurial groups desire to keep the benefit of their entrepreneurship's future within a limited circle of relatives and friends. Such concern has no rational basis, going public is not necessarily inconsistent with retaining control. Family owners can always protect themselves by issuing fewer shares than a majority, by selling preference shares, or by creating certain class of voting rights.

Income from dividends may be made more attractive. Existing tax may totally be withdrawn. Usually ordinary investors compare dividend income with that of bank deposits or other fixed-interest instruments. As such dividend income which is riskier to bank deposit income should be higher. It may be pointed out that dividends are paid out of after-tax income, whereas interest payments are paid out of gross earning before taxes.

The companies do not offer their shares to the public because it involves disclosure of substantial information. But for ensuring fair financial practices and to provide some protection to investor's disclosure of full information is a prerequisite. In fact they need consistent enforcement and further expansion in order to generate public confidence in the securities market. Reporting and tax requirements should be upgraded and applied more rigorously and consistently to all listed and non-listed private corporations as well as to public sector enterprises.

Lack of any appreciable change of demand for securities may be due to the failure of securities market to satisfy either the (i) needs of individual investors for low risk, easily accessible investment instruments or the (ii) needs of institutional investors for investments that can produce long-term rates of return that are competitive with other investment opportunities. Thus government action is needed in building investor's confidence, providing appropriate incentives, and encouraging the development and participation of institutional and external investors. Relatively limited size of affluent professional urban population and generally low level of savings influence the number of investors. Apart from these investors

shy away because of (i) more attractive alternative investments; (ii) a pervasive lack of investor confidence; and (iii) a general lack of the operations of the market. Alternative investment such as national savings certificate, even riskier high return real estate business appear to be more attractive. Reasons for pervasive lack of confidence may be identified as (i) steep fall of share prices; (ii) frustration and apprehension due to government's dilly-dally in taking measures to stimulate securities market; (iii) lack of appropriate financial information about the securities market and the listed firms in particular; (iv) inadequate accounting and financial reports; (v) failure of the regulatory authorities to supervise and monitor securities market operators and to protect share holders against malpractices and market manipulation.

There are two facets of financial information that need to be improved. Firstly, collection and dissemination of technical market information (transaction prices, the range of bid and asked price, volume, yield on P/E ratio etc.) needs to be provided by stock exchange on a timely basis throughout the day and at the close of business. Secondly, due to supply of insufficient amount of financial information by listed companies the investors cannot assess companies' operations. Without adequate accounting, auditing and financial reporting it is not possible to determine the true position and profitability of an enterprise. In the absence of this finance can be misallocated and investors can be misled.

Without uniform reporting requirements and generally accepted principles and standards, it is not possible to make any comparisons between one company and the other. One of the major factors undermining investors' confidence has been the persistent fear of market manipulation. In the recent past there was strong apprehension that securities market was rigged against small individual investors. Rightly or wrongly, it is said that insiders are engaged in trading of securities on the basis of privileged information. This problem may be solved through improving the quality of securities professionals working in the securities market, strengthening regulatory authorities and more strictly enforcing market regulations.

Generally speaking, much can be done to provide incentives for increased equity investments, to modify the tax treatment of dividends, and to

establish savings-linked investment schemes. Securities market is by far the most difficult for a private investor to comprehend. Learning about the benefits and operations of the securities market will take some time. Such change can be achieved through widespread securities market education and development of qualified financial journalists, improvements in the quality of financial market publications and a better financial education in the universities and secondary schools.

Institutional investors such as investment companies and insurance companies may be encouraged to play important part to develop securities market. External investors may be an attractive source of funds. There are two pools of potential external investors. Like India or Turkey special unit trusts may be established to channel non-resident capital into the domestic securities market.

To raise foreign capital active promotion of a greater flow of information about the country's securities market and the performance of specific listed companies will be needed. The government has already provided substantial incentives for foreign investment. Brokers, dealers and underwriters play important role to activate securities market.

A variety of institutions such as security firms, merchant banks, finance companies, DFIs and commercial banks etc can help expand the trading. However, involvement of these institutions depend on due encouragement and assistance from the government.

The number and quality of security industry professionals are quite low by international standards. Substantial upgrading is needed to make them more effective. The government must have the will and desire to improve securities market operations. Since securities market primarily serves the private sector, the dominant role must be played by the private sector institutions, intermediaries and individuals.

After the traumatic experience of 1997 government has realised the need for giving emphasis on the development of securities market. Some measures have been taken. Some others are in the offing. However much more is to be done to stretch the benefit to the small unsophisticated investors of the securities market.

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Black Holes in Revenue Gathering

PROJECT VIEWFINDER has been a tremendous litmus test about the conscience of the nation's wealthy, it shows clearly that the rich not only do not have either conscience or responsibility to pay their dues to the public exchequer, they are not ashamed about it.

A recent survey conducted by a research company assisting in the TV Licence Fee Campaign 1998-99 PROJECT VIEWFINDER is very revealing. In the first two months of the campaign, 27 per cent of the people belonging to low-income group area had purchased TV licences whereas 14 per cent of those classified as middle income group and less than 6 per cent of the affluent group had done so. In areas like Defence Housing Authority, Karachi, out of 50 houses on one street, nearly every house having a Dish Antenna, only 2 had obtained TV licences and even they had not paid for the Dish Antenna. Amazing as it may seem but those who can afford to spend Rs 250 for a single sandwich at one of the mushrooming fast food outlets are averse to paying Rs 250 as annual fees for a TV licence. On the other hand, at the other extreme the poverty stricken, and this includes rest of the middle class in the present economic environment, are far more responsible with respect to their public obligations. If you study the proportionate value of the licence fee to the annual earnings of the low-income group and compare it with that of the affluent, the factor of greed and indifference to civic responsibilities among the well-to-do is unimagineable.

Analysing the wide discrepancy the company concerned came up with some startling findings, among them viz, (1) those on the poverty line are very concerned about socio-economic facilities, as such they tend to fulfil their obligations far more than the higher income group who take it as a God-given right, their conscience feeling no responsibility towards paying their dues to the State and its agencies, (2) the poor income group fear the threat of court summons and police involvement whereas the affluent have no fear of either, (3) for the poor the TV licences is another piece of documentation as proof of ownership and occupation of their house while the rich want to avoid such documentation and (4) the prize draw scheme attracts the poor but causes little or no excitement for the affluent who already possess whatever is on offer.

These observations are a shameful reminder of the sad lack of social conscience among the affluent. As the last day before penalties and surcharges are applicable approaches, the announcements on TV and print media, encouraging TV set holders to purchase licence, have become slightly tougher in

tone. One of the solutions proposed by the collection agencies is also revealing, lists of defaulters are being prepared which are intended to be published in local newspapers. Court summons are also being readied to be sent in an inverse ratio to purchases, affluent income group 10, middle income group 3 and 1 for low income group. Most of those who default, particularly in the affluent group, will probably end up paying even 10-15 times more than the original sum other than the embarrassment and the unnecessary time consumed between court, bailiffs, police station and bank. That experience should be a powerful enough incentive to dissuade them from avoiding taxes and duties in the future, at least the dues against utilities.

Most of this country's problems stem from the fact that those who have gained most from the largesse of the State do

not want to pay taxes but evade them by relying on 'bribes and connections' to escape the clutches of the law. The fact that only one million or so souls are registered as tax payers, mostly the salaried class, is a disgrace. At least 3-4 million more taxpayers are evading registration, every one million taxpayer means Rs 100 billion approximately to the exchequer. This is a staggering Rs 300-400 billion direct loss to the public exchequer, more than the debt repayments, defence expenditure and cost of running government all put together.

Similarly as regards Sales Tax registration and Central Excise Duty, the evasion is staggering. In Rawalpindi Sales Tax Region alone, over 9000 units of coal mines, stone crushers and brick manufacturers are not registered, each capable of paying Rs 100000 annually at the very minimum. This amounts to an evasion of Rs 9 billion. However with the active connivance of tax enforcers, Rs 7000 per month per unit for NOT registering (a cool approximate Rs 60 million a month or Rs 72 crore per year), very few of the units, if any, are registered and those that are, hardly pay 5 per cent of what they should.

The present GST issue is an outrage perpetrated by the PM's and houses are looted or vandalised, their FIR should not be registered at any Police Station if they are not registered as GST payers. Furthermore one can only assess the amount looted if the GST declaration gives an approximate value. In the same manner what is the proof you own a TV set or VCR unless you have a valid licence? Without the requisite licences they can be included in the list of stolen items. This may seem an invitation to loot, anyone who does not subscribe financially to the public exchequer towards maintaining of police cover does not deserve to be secured or protected by the State and that also at the expense of others who pay their dues. The State may well look after them as private citizens but as professionals and their place of work thereof can only fall under the ambit of the State when they start paying their taxes. More-over the citizenry should be encouraged not to purchase any item from them unless they are registered — and paying GST.

The only way to get our citizens to pay their respective dues is to decentralize taxation down to the elected Local Bodies level. For the governance of any country it is most important that there is meaningful people's participation at the grassroots level particularly for a country

like Pakistan, in danger because of both external and internal pressures, of descending into anarchy, it is vital that we turn to the concept of Local Bodies governance immediately.

And to make them fully participant, elections to the Local Bodies must be held on the basis that anyone who gets 5 per cent of the vote will be elected to the Council. Theoretically one could have a maximum of 20 people on a Union Council (comprising approximately 250000 population with less population in sparsely populated areas). Five Union Councils should make a District i.e. a District will have one million population but more important almost everyone in that constituency will have some representation in the Council. That Council then becomes very important for governance for many reasons, not the least being to assess and collect taxation. Having good knowledge of the people living in the area, the Council would be able to do effective tax collection, keeping one portion for local use and sending the major balance to the District, Province and the Federal Governments on a proportionate basis.

Centralized and compartmentalized taxation allows rogues and scoundrels free rein to use expensive accountants and lawyers to good effect, with active connivance by public sector officials. Without effective revenue gathering and expenditure roles for elected representatives in their own respective communities, the context of governance is lost in democracy. Corruption is so rampant through the entire spectrum of the tax collection agencies that entire files, even pertaining to court cases filed, are lost. If they are not, a senior 'authorised' or 'competent' authority will simply 'condone' the offence, for a 'price' of course. At the bottom end i.e. the poor, have responsibility and conscience ingrained in them, sadly this is lacking mostly in the affluent class as can be seen from PROJECT VIEWFINDER where TV Licences have been purchased in low-income areas four times more than in affluent groups.

PROJECT VIEWFINDER has been a tremendous litmus test about the conscience of the nation's wealthy, it shows clearly that the rich not only do not have either conscience or responsibility to pay their dues to the public exchequer, they are not ashamed about it. In such a case only weapon the State has is to withdraw various facilities that the State makes available to such citizens on a focused basis.

AS I SEE IT

Ikram Sehgal writes from Karachi

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Europe's New Currency

by M. A. Obaydullah

THE world is preparing to bid farewell to the Franc, Mark, Lira and many other currencies of Europe. Eleven of the 15 European Union countries are participating in the European Monetary Union (EMU). As of 1 January 1999, the Euro will be adopted as the common currency of Germany, France, Austria, Belgium, the Netherlands, Luxembourg, Finland, Ireland, Spain, Portugal and Italy.

Great Britain, Denmark and Sweden have so far declined to join while Greece has failed to meet the fiscal membership criteria.

The countries joining EMU will begin to phase out their own national currencies, and the Euro will be used for all non-cash transactions.

Euro bank-notes and coins will begin circulation on 1 January 2002, and all legacy currencies will be withdrawn from circulation six months later. By that time the Euro will replace an estimated 70 billion coins and 12 billion bank-notes now in circulation in the EMU countries.

question of the President's trip being currently on hold and under review and the work that Deputy Secretary (of State Stroble) Talbot has been doing to try to deal with some of the critical arms control issues.

"Beyond that," Rubin said, "I'm not aware of a new proposal other than to say that these are the kind of efforts — as was the case in Ireland and has been the case in many other issues — where one continues to work at it, pressing, pushing."

The spokesman said the rationale behind such "pressing and pushing" was ultimately to cajole both parties "themselves to decide that they want to put aside their animosities and enmity."

will be no shortage of supply (through bonds, bank loans and stocks), the level of investor interest in the Euro is unknown.

The European Central Bank (ECB) will determine monetary policy for the countries adopting the Euro. One measure of the new currency's strength will be the ECB's credibility and its resolve to set a balanced monetary policy. This 'market sentiment' factor will play a key role in establishing confidence in the Euro.

The Euro's relative strength will also be affected by other factors, such as fiscal and monetary policy in Britain, Continental Europe, North America and Japan.

With EMU, companies within the Euro bloc will need to become more efficient to compete in a more open economy. As many companies in non-member European countries already have become more efficient and competitive, these businesses will continue to offer good potential for investors. As a result, the Euro's impact on

investments in non-EMU markets could be quite minimal.

Investors will be required to keep in mind that non-Euro countries will set their own fiscal and monetary policies. This means investors should still perform a 'country analysis' before making substantial investments in European countries that have not adopted the Euro.

Bond market: The bond market denominated in the Euro should challenge the US government bond market in size. That would be good news for investors. The Euro bond market will represent the first large, efficient alternative to the US market, meaning greater choice and liquidity.

The EMU bloc countries will have enhanced economic power, with a greater influence on world trade and International Monetary Fund policies. This stronger international representation will help make the Euro a favoured currency, and enhance the attractiveness of Euro-based, fixed-income investments.

US Wants Irish-type Peace Accord in South Asia?

Aziz Haniffa writes from Washington

IF the Clinton administration could have its way, it would like to facilitate a peace accord in South Asia as it did in Ireland, the State Department has hinted.

Department spokesman James Rubin however said Washington would not take an initiative like it did in Ireland unless both India and Pakistan agreed to a mediating role by the US.

Islamabad has virtually been imploring Washington to get involved in the Kashmir issue, but India has made it clear that it will not tolerate any international mediation and instead would like to resolve it bilaterally with Pakistan.

greater violence."

Rubin denied that in the wake of Independent Counsel Kenneth Starr's report on President Clinton's sexual relations with former White House intern Monica Lewinsky, the administration's credibility vis-a-vis foreign policy and how the U.S. is viewed internationally has been eroded.

He asserted that foreign leaders have expressed confidence in and support for U.S. policies and also for Washington's leadership on contentious international issues from the Middle East to South Asia.

Rubin said that to the extent that further views were expressed, "Rubin said, they tended to be views in which the leaders expressed their appreciation for the American policies that have been pursued in recent years; the leadership of the United States has shown on various issues; and the importance to those leaders that these policies continue."

"On a personal level," Rubin added, "I would be surprised if there weren't some expressions of support."

Rubin maintained that despite the crisis surrounding Clinton, there has been no problem where Albright was concerned in getting the President to focus on and conduct foreign policy. "Secretary Albright has made it clear that she has never had a problem in recent months or years in getting the President on the phone when she needs him and doing the work that she needs to do," he said.

understanding the nature of the situation."

"But to the extent that further views were expressed," Rubin said, "they tended to be views in which the leaders expressed their appreciation for the American policies that have been pursued in recent years; the leadership of the United States has shown on various issues; and the importance to those leaders that these policies continue."

"On a personal level," Rubin added, "I would be surprised if there weren't some expressions of support."

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