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#### Comptroller and Auditor General's report on Sonali Bank

# Massive flaws in lending to Dhaka Vegetable

Water found in soybean oil tanks, SB Board gives new loans to save company from becoming defaulter

By M Shamsur Rahman

down-payment within the stip-

carry out the order of the MD al-

though the company failed to

make repayments," the audit

report pointed out. The current

outstanding loans of the com-

pany stands at Tk 46.55 crore, it

Flaws detected by the

"All the fixed assets of the

audit team

company including land, build-

ings, plants and machinery

were first mortgaged to the gov-

ernment for quasi equity loans.

The company did not repay the

instalments of the quasi equity

loans and all its fixed assets

were mortgaged for the second

"The bank officials did not

ulated period.

An audit report submitted to the President has found that Sonly Bank had given crores of Taka as new loans to a company, Dhaka Vegetable Oil Industries, without adjusting its existing default amounts.

The report also said, the SB Board of Directors had rescheduled the company loans and sanctioned new ones, just to save the company from becoming a defaulter.

The SB head office recommended renewal of Dhaka Vegetable's loan limits without considering the irregularities. it alleged.

Dhaka Vegetable Oil Industries has defaulted in payment of Tk 37 crore loan taken as cash credit from Sonly Bank. The current amount of the company's default loan stands at Tk 46.55 crore.

A special team from the Office of Director General, Commercial Audit Directorate. Dhaka, conducted the audits on the bank's defaulted loans.

Dhaka Vegetable Oil Industries was sanctioned Tk 14 crore loan as CC pledge, Tk 11 crore as CC hypo and Tk 12 crore as letters of credit.

The audit report further said the nature of the quasi equity loan and the low quality of soybean oil will make the recovery of the entire default amount of the company difficult even if it is taken to the court.

The audit report held all the concerned officials of General Loan Division-1 of SB's Local Office in Dhaka and General Loan Division-5 of the head office responsible for the loan sanctioning irregularities.

Dhaka Vegetable Oil Industries Limited was registered with the Registrar of Joint Stock Company as a private limited company under the name of Dhaka Vegetable and Allied Industries in March, 1958. The authorised capital of the company was Tk one crore.

Later on February 7, 1963, the company changed its name to Dhaka Vegetable Oil Industries and was registered with the Registrar of Joint Stock Company. After independence. the company was nationalised and was placed under Bangladesh Sugar and Food Industries Corporation. In 1987, it was turned into a subsidiary company with 51 per cent of the shares held by the corporation and the rest by the public and workers and employees of the company. On April 22, 1993, the government's under its privatisation policy, sold out its stake which was then bought by the current Managing Director of the company, Mohammed Ali. Loans Sanctioned to Dhaka

**Vegetable Oil Industries** Under Bangladesh Sugar and Food Industries Corporation. the company was enjoying loan facilities against its working capital. Its CC Hypo limit of Tk 10 crore was renewed on April

30, 1994. The company had its loan facilities extended from

| Loans          | Limits   | Terms                  | Current Outstanding |
|----------------|----------|------------------------|---------------------|
| CC Pledge      | 14.00 cr | 31/12/95               | 15,40,07,106        |
| CC Hypo        |          | 31/12/95               | 15,04,02,960        |
| AAM            |          | 31/12/95               | 15,79,82,523        |
| Bank Guarantee |          | - Parlie - Oran Living | 31,62,615           |
| Total          |          | Lement                 | 46,55,55,204        |

#### Water in soybean oil

Sonly Bank requested the company several times to take delivery of its goods deposited as pledge in the bank's warehouse. As the company failed to respond to repeated requests, the bank then decided to test the quality of the crude soybean oil preserved in tanks.

In the presence of the bank and company representatives, a chemical engineer collected samples of the soybean oil kept in nine tanks and sent it to Bangladesh Standard and Testing Institute (BSTI). The BSTI in its report on June 23, 1997 said the samples contained 14.99 per cent to 38.92 per cent water, regarded to be a very high ratio.

**Board decision violated** Later, the company submitted a guarantee on June 8, 1997. saving that it would make a 10 per cent down-payment of its different loan balances within

90 days for getting them

rescheduled. The managing di-

rector of the bank had also di-

rected the officials to sue the

company if it failed to make the

would, therefore, receive against its disbursed loans whatever is left after settlement of the government claims," the auditors said. "Since the company is considered a loan defaulter, there are less chances for settlement of the bank's

#### Pledged goods

claims through sales of collat-

A report carried out by the SB special investigation team said that the soybean oil imported by the company had been pledged in 1993, 1994 and 1995. According to BSTI report, the oil had high water contents. As the oil had been stored for a long time, it lost its quality and made slimmer the scope for recovering the bank's loans by selling mortgaged stock. The auditors also called for explanations as to how water entered into the oil tanks, which were under the supervision of the

#### More flaws

1) The audit also pointed out that the company was supposed to deposit the product sales money, which the company again failed to comply with.

audit team that cases would be filed after lawyers were selected.

| Year | Sales (Tk in crore) | Deposit with bank (Tk in crore) |
|------|---------------------|---------------------------------|
| 1994 | 66.13               | 18.66                           |
| 1995 | 36.82               | 10.04                           |
| 1996 | facts unavailable   | 0.52                            |

"This proves the bank's lack of control over loan accounts. which calls for an explanation," the report said.

2) The books say that on different occasions the company was allowed to draw money in excess of its limits which resulted in deficit of its accounts.

8/4/95 - 5/5/95 | 9,31,10,000

bank had shown favouritism by

allowing the company to with-

manager did not protect the

bank's interest and favoured

the borrower. Despite having a

burden of unrealised amounts.

fresh loans were okayed which

resulted in a total of Tk

had low output capacity, a high

production target was set and

the limit for working capital

50 per cent of its production

target.,, According to a

Bangladesh Bank circular, the

amount of the current year's

working capital was to be

worked out by adding five per

cent to the actual production.

But in violation of the provi-

sion, working capital for 1995

was worked out by showing 75

per cent production achieve-

ment. But the actual production

target achieved during the year

Bank's reply to the

audit team

Sonly Bank informed the

was only 22 per cent.

In 1994, the project achieved

4) Although the company

15.79,82,523 unrealised loans.

The report also said that the

12/3/95

goods in pledge.

was extended.

Drawing

power

7,07,98,000

Actual drawing Additional drawing 8,73,03,152 1,65,05,152 12,08,63,975 2,77,53,975 remained unrealised for a long period. Despite deficits in dif-

ferent accounts, the borrowers

**Auditors' comments** 

lated the loan conditions and

did not release goods from the

company without adjusting the

exiting ones and huge amounts

warehouse for a long time.

The borrowing company vio-

New loans were given to the

draw money although it had no were allowed the new loan limits, which hampered the interest of the bank. 3) The branch office allowed Sonly Bank's head office the company's accounts to become overdue and cross CC recommended renewal of the limit violating loan conditions. loan limits without considering This shows that the branch the irregularities, the audit re-

port further said. The worst thing is that the SB board of directors had rescheduled loans and allowed fresh funds without any logical ground and just to save the company from becoming a loan

defaulter. The audit report held several officials responsible for the irregularities in the loan sanc-

tioning. Loan sanctioning and recommending authorities:

1) Loan recommendations and accounts maintaining authorities:

Bazlur Rahman, GM, currently working in Rupali Bank. (B) AKMA Basit Ali, GM, currently working in Agrani Bank

2) Loan sanctioning authori-

(A) General Loan Division-5. MD Sanaul Haq, GM, (retired), Abdul Halim Sikdar, DGM (retired)

3) Managing Director M Ahsanul Haq (retired)

### Sick industry problems must end by June: Kibria

Finance Minister Shah A M S Kibria said here yesterday that the sick industry culture in the country must come to an end by June 30 next, reports

While fixing the target time for freeing the country from this bad culture, Kibria said the culture of sick industry must be rooted out side by side with the bank loan default culture for industrial promotion.

Kibria said he would give directives to the nationalised banks to speedily settle the problem of sick industries by adopting realistic plans.

Ribria was speaking as chief guest at the conference of entrepreneurs of small and medium-size industries organised by Bangladesh Association for Promotion and Rehabilitation of Industries (BAPRI) at the auditorium of Bangladesh Chemical Industries Corpora-

The minister said those sick industries which come out successful within the target time will be rehabilitated. The industries which will fail to come out of the sickness, should not

be given any help, he added. The graceful way for the really sick industries is to get out of this particular business, Kibria observed.

The minister said after the end of the sick industry culture, the remaining industries should be regulated by a set of modern rules and regulations.

Describing over-capitalisation as a major cause for failure of any particular industry or business, Kibria said the practice of over-capitalisation, which is rampant in our business, would not be allowed any

The minister said the fundamental principle of business involves the risk factor and profit is the reward of entrepreneurial capability.

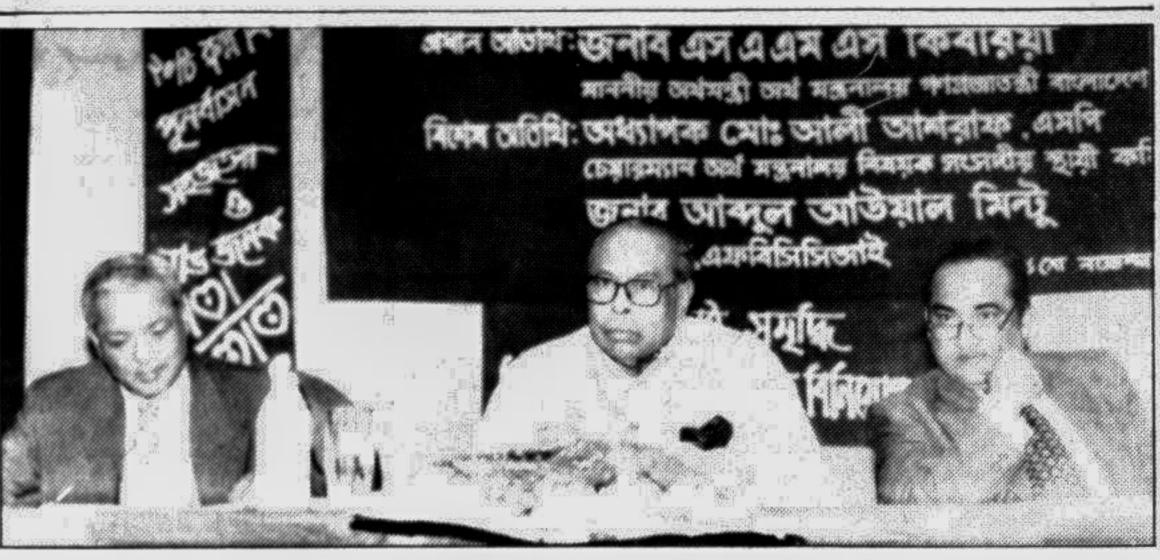
He identified weak management, over capitalisation and lack of proper market feasibility as the major reasons for failure in any business.

Opposing the imposition of loan, Kibria said this turns the whole thing into a punishment. Those who repay the loan should be given rebate to give encouragement to them, he added.

Describing the agro-processing industries as a thrust sector, the minister said the government would give support to the agro-processing industries.

Kibria also underscored the need for building up supportive and respectful relationship between the banks and the clients.

The minister urged the private banks to take initiatives to help get over the problems of sick industries and default bank loan culture.



Finance Minister Shah A M S Kibria speaks at a conference of entrepreneurs of small and medium-size industries in the city yesterday. - Star photo

## European bourse heads go on first date in Paris

PARIS, Nov 28: Europe's bourse bosses meet in Paris on Friday with all the coyness of couples on a first date, aiming to avoid publicity as they lay the groundwork for the creation of a truly pan-European ex-

Stock exchange officials were sparing about details of the gathering, stressing the preliminary nature of the talks. A short statement on commitment to continued cooperation was the most likely outcome. they said.

The meeting has aroused intense media interest, but Paris bourse officials have tried to de-

flect that attention as they brought together the heads of nine national stock exchanges to seek a cooperative basis." "It really is a very prelimi-

nary meeting," one official told Reuters late on Thursday. The talks are scheduled to start between 0930 and 1030 GMT and finish between 1530 and 1630 French finance minister

Dominique Strauss-Kahn last week said Paris would join forces with London and Frankfurt in January in a joint venture, but the bourse quickly denied that discussions had reached that stage.

Yet as exchanges battle for survival with technological change threatening to make every bourse a virtual electronic market, the Paris meeting was symbolic.

It brought together officials from Brussels, Amsterdam, Frankfurt, London, Madrid, Milan, Stockholm and Zurich with their Paris counterparts. The Paris initiative seemed

set to end an official standoff sparked after London and Frankfurt said they had held secret talks and planned common access for members to each others' exchanges from the start of next year. — Reuter Internet

#### 'Govt backs pvt investment in transport sector'

Communication Minister Anwar Hossain Manju has said the government is encouraging private investment in the transport sector to improve urban transport and ease traffic congestion, says APB.

He said this while launching the double-decker bus service of Nitol Motors Ltd in the city yesterday.

In the first phase, Nitol will commission 10 double-decker buses from the first week of December. Each of these buses will have a capacity to carry 115 passengers.

Nitol Group Chairman Abdul Matlub Ahmad said that his company had a programme to introduce 200 such buses in Dhaka, Chittagong and Khulna.

He told APB that the buses would be pressed into service on Mirpur-Gulistan and Uttara-Gulistan routes in Dhaka. The fares of these double-deckers would be less than that of Nitol's Metro buses.

Matlub said the Nitol double-deckers have been specially designed for the city roads of Bangladesh. The buses were built in China, but their engines are from the USA.

Anwar Hossain said the country's transport infrastructures were being improved and the government was trying to further develop the roads and highways to attract private investment in the sector.

Welcoming Nitol's new venture, the minister hoped the service would help improve city transport and encourage the private sector to introduce more good-quality buses.

Among others, Al-Hajj Mokbul Hossain MP, BRTA Chairman A N Hussain and Chinese Ambassador Wang Chungui addressed the function held at Hotel Sheraton yesterday evening.

Presided over by Matlub Ahmad, the function was also addressed by transport economist of World Bank M Iqbal Karim, Madam Bai Yuling of Tianjin Machinery Import and Export Group of China and Nitol directors Abdul Mannan Ahmed and Selima Ahmad.

Iqbal Karim said on an average 1200 buses operate in Dhaka city daily. Out of these, more than 1,000 buses are old and not properly maintained.



Sheraton Hotel yesterday.

- Star photo

#### ICMAB reception to new CMAs

The certificate-awarding ceremony and reception to the newly-qualified CMAs was held Thursday evening at ICMA auditorium under the auspices of Dhaka Branch Council (DBC) of the Institute of Cost and Management Accountants of Bangladesh (ICMAB), says a press release issued in city yesterday.

ASH K Sadique, MP, Minister for Education, was present as the chief guest while Dr Mizanul Huq, MP, Chairman of the JS Committee on Estimate. was the special guest. It was presided over by Md S R Khan. ACMA, Chairman, DBC of ICMAB.

In his address, the minister said that our resources are scarce and we are facing so many problems. To overcome the problems and for ensuring proper operational efficiencies in economic undertakings, checking wastage of resources. optimising profit margin, identifying causes of industrial sickness, cost and management accounts can play an important role.

#### Russia ready to meet IMF conditions: Primakov

MOSCOW, Nov 28: Prime Minister Yevgeny Primakov said Saturday that his government was prepared to comply with coinditions set by the International Monetary Fund for the resumption of aid to Russia's ailing economy, says UNB.
Primakov said he hoped to

reach an agreement soon with the IMF Managing-Director Michel Camdessus, who was scheduled to come to Moscow on Dec. 1, the Interfax news agency reported. Speaking to the legislative

assembly in the southern Russian city of Belgorod, Primakov said his governent was prepared to fulfill the fund's conditions because Russia badly needs the next dlrs 8 billion installment of an IMF loan.

"This money will allow us to clear some foreign debts and to inject 85 billion roubles into the economy," Primakov said. The IMF has insisted oin

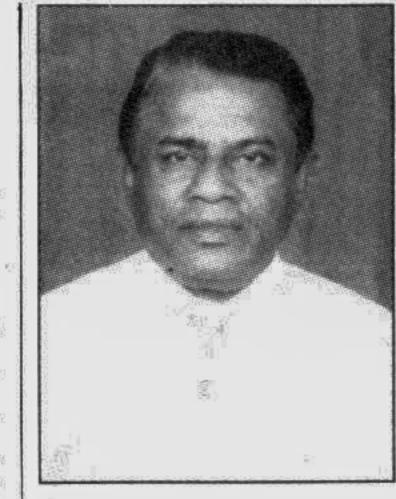
seeing a souldn economic program by the Russian government, and sings that is has been implemented, before releasing any mor eof the \$22.6 billion aid package that has been frozen since August. An IMF delegation left

Moscow earlier this week with no promise that it would resume an existing loan, and Primakov was critical of some of the fund's methods of granting loans. "We should comply with

their conditions, but not because we are overly obediently Primakov said, according to Interfax. "I find myself irritated when

young boys come (to Moscow) and start imposing their conditions," he said. "They have read many books but they don't know life as it is or the actual situation in Russia.

Russia is facing its worst economic crisis since the Soviet collapse, after succumbing to the global economic troubles that started in Asia, which prompted Russia to default on loans and devalue the ruble in August.



Md Abu Taher Chowdhury



Tulu Kalimullah

#### New chairman, vice-chairman of Central Ins

Star Business Report

The meeting of the Board of Directors of Central Insurance Company Ltd has elected Md. Abu Taher Chowdhury and Tulu Kalimullah Chairman and Vice Chairman respectively, says a press release issued in city yes-

Md Abu Taher Chowdhury, the Managing Director of Fairooz Flour Mills Ltd and Osmania Flour Mills and proprietor of A T Corporation, is a renowned business personality of Chittagong.

Tulu Kalimullah, a leading industrialist, is the Managing Director of Tushan Overseas Ltd. sponsor director of Pioneer Credit and Cooperatives Ltd and director of R K Apparels Ltd.

#### Commodity: Weekly Roundup

## Crude oil hits historic low on OPEC failure to boost prices

LONDON, Nov 28: The failure of the OPEC meeting this week to prop up oil prices left crude at historic low levels, while elsewhere in the commodities markets coffee prices heated up, re-

ports AFP. Brent, the reference North Sea crude, fell under the 11 dollars barrier this week in London, while in New York light sweet crude fell under 12 dol-

During the week, Brent sank to a historic low opening price of 10.85 dollars a barrel as investors wrote off the chances of OPEC, which held a crucial meeting on Thursday, being able to use its cartel powers to pull prices out of the slump.

OPEC wound up the meeting without even agreeing to prolong current production limitations agreed on earlier this year in an attempt to boost the market, those cuts will expire in June.

Medhi Varzi, an oil expert at Dresdner Kleinworth and Ben-

son, said the meeting did not even do enough to keep make sure that prices won't fall below 10 dollars a barrel. Current production cuts

amounting to 2.6 million bar-

rels a day will be applied until June, as previously agreed. **RUBBER:** Flat. Rubber prices were little changed this week, with the London rubber index up slightly at 497.50 pounds a

tonne for November and 502.50 pounds for December. The RSS1 index in Kuala Lumpur fell to 2.65 ringgits a kilo from 2.71 ringgits.

COFFEE: Strong. Coffee prices rose, especially for January robusta which rose 106 dollars to 1.749 dollars a tonne. in response to tightening sup-Heavy rain in Vietnam

caused by tropical storm Elvis damaged plantations and also delayed deliveries, traders said. TEA: Cloudy. Prices were irregular this week in the Mom-

basa, Kenya, auctions with attention only on certain lots, the Tea Brokers' Association said. BP1 high quality tea fell 25 cents a kilo while mediums lots fell three to five cents a kilo and PF1 fell five to 15 cents. Pakistani traders were espe-

cially selective and Egyptian traders were less active than usual. However, demand from Sudan, the Middle East and Somalia was strong.

sugar: Powdery. Sugar prices fell this week despite price-supporting fundamentals underlying the market. The US Department of Agri-

culture meanwhile lowered its estimate of production for 1998-99 to 126.5 million tonnes and forecasted a record demand future of 127.5 million tonnes. factors which could result in overdemand. In addition, Thai farmers

warned that drought could af-

fect them from January to May.

the dry season, meaning that

VEGETABLE OILS: Slippery.
US soya prices fell in response to needed rainfall in producing

regins of Argentina and Brazil and a fall off in US vegetable oil export due to low demand. A short strike in Brazil's Santos Port was not felt on the market.

On the Chicago Board of Trade, soya fell 11 cents to 5.71 dollars a bushel of 27.2 kilos for January. On the Rotterdam oils market, palm oil for January-

March rose 10 dollars to 690

dollars. European sunflower oil was not quoted. On the Malaysian palm oil market, trading was quiet amid investor caution after some erratic movements and domestic political turmoil, palm oil closed at 2,298 ringgits for January on the Kuala Lumpur

commodities exchange. COCOA: Cold. March cocoa contracts fell 10 pounds under

next year's crop could be threatthe 1,000 pounds barrier this week to 990 pounds a tonne, as the quantity of beans arriving for export in Cole D'Ivoire ports rose sharply, indicating that

the world's biggest producer has a bumper crop. Estimates vary sharply on whether production is about to

fall, or reach a record high. GRAINS: Stale. US wheat prices fell sharply this week on prospects of good winter crops

US prices were also driven down by Egypt's purchase of 220,000 tonnes of Australian wheat. However, analysts said that prices would pick up again after the long thanskgiving weekend,

in ideal growing conditions.

tims in Central America There are also signs of a lowering of quality in the Australian crop, due to heavy rainfall, another potential price lifting factor.

were unchanged this week after weeks of declines, mostly due to the absence of US investors over the long thanksgiving holiday weekend. The calm gave the market

**COTTON:** Flat. Cotton prices

some respite after hitting rock bottom prices on speculative selling. The cotton outlook index was unchanged at 55.90 cents a pound.

WOOL: Thin. The British wool market saw a poor week with low demand and heavy swelling by producers cashing in on last week's gains, said the committee of London wool bro-

The wooltops index fell four pence to 315 pence a kilo, while due to 180,000 tonnes of wheat in Australia, the Eastern Index and 50,000 tonnes of maize in on the Australian Wool Ex-US food aid for hurricane vicchange closed 17 cents lower at 5.12 Australian dollars a kilo of the 110,507 bales on offer, only 83.5 per cent found buyers, the Australian Council of Wool Exporters said.