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OECF to give Tk 15.46 cr for power sector

Overseas Economic Cooperation Fund (OECF) of Japan will provide Tk 15.46 crore to construct cooling tower at Fenchuganj 90 mw Combined Cycle Power station, says BSS.

The total cost of the project has been estimated at about Tk 22.50 crore, a Power Development Board (PDB) press release said here yesterday.

The project is expected to be completed in 14 months.

An agreement to this effect was signed here yesterday by PDB Secretary Mohammad Iqbal Hossain Khan and Manager of Sumitomo Corporation Shoji Ebato on behalf their respective organisations.

KAFCO output exceeds capacity

The ammonia and urea plants of KAFCO at Anowara, Chittagong achieved record production levels in the last fiscal year, says a company press release.

Compared with the annual capacity of 500,000 tons of ammonia, KAFCO recorded 504,670 tons of production. Urea production exceeded the capacity of 570,000 tons by 7 per cent to 609,131 tons.

Foster Wheeler, a major international contracting company, is undertaking a technical audit to ascertain the current condition of KAFCO's ammonia/urea complex and its long-term technical viability.

The audit is part of a financial restructuring being undertaken for KAFCO by IFC, an affiliate of the World Bank. This financial restructuring is needed as a result of very low international market prices for urea and ammonia over the last year, the release said.

Low international market prices for urea are expected to continue for a further 2-3 years due to dumping by Russia and reduced import demand in India and China.

The KAFCO board requested IFC to prepare a long-term financial restructuring to take account of adverse market conditions and ensure KAFCO's long-term viability.

Plant problems during the period of 1995-98 and gas shortages had a serious effect on the company's cash flow in the past but the main cause of current concern is world market, it added.

Prime Bank earns Tk 220.74 m profit

Prime Bank Limited has earned an operating profit of Tk 220.74 million during 1998, representing a 130 per cent increase over 1997.

This was disclosed at the fourth annual general meeting (AGM) of the bank held at its head office in the city yesterday, says a press release.

The meeting was attended by all the shareholders, auditors, directors including Chairman of the board of directors Md Nader Khan and Managing Director Kazi Abdul Mazid.

The meeting approved the directors' report and audited accounts of the bank for the year ending on 31st December, 1998.

The total capital fund of the bank as on 31st December 1998 stood at Tk 293.70 million with a capital adequacy ratio of 9.86 per cent which is well above the stipulated 8 per cent.

The deposit of the bank increased by 25 per cent to Tk. 5315.25 million during the year 1998.

The loans grew by 78 per cent to Tk. 3127.77 million and foreign exchange business grew by 158 per cent to Tk. 10711.30 million.

During the year the bank opened 4 branches and at present it has 20 branches all over the country.

With an authorised capital of Tk 1000 million and paid up capital of Tk. 100 million, the bank was set up in the private sector as a scheduled commercial bank in April, 1995.

The bank has been recognised as "A" class bank under Camel Rating of Bangladesh Bank.

The bank is in the process of issuing shares to the public shortly which will raise its paid up capital from Tk. 200 million to Tk. 400 million.

TSP complex sets production record

The TSP Complex Ltd, the only Phosphatic fertiliser industry under Bangladesh Chemical Industries Corporation (BCIC), scored the highest production record with 1,80,638 mt during the 1998-99 fiscal year, says BSS.

The total production includes 58,497 mt of TSP and 1,22,141 mt of SSP. The previous year's production was a total of 1,50,499 mt, a BCIC press release said here yesterday.

It said the TSP complex paid Tk 9.50 crore as tax and customs duty to the government treasury.

The enterprise fixed the target of production at 70,000 mt of TSP and 1,30,000 mt of SSP during the current fiscal year following completion of its BMRE at own cost of Tk 10 crore.

The press release said the Agriculture Ministry estimated the total demand for TSP at 4 lakh mt and SSP at 6 lakh mt.

Huge shrimps stockpiled in Khulna

Vessel, container dearth hits fish export

A large quantity of exportable frozen food items, mainly shrimp, are stockpiled in Khulna region due to lack of carrier vessels and containers at Mongla port, reports UNB.

With extreme peak season of cultivation, at least 30 containers laden with shrimp worth some Tk 15 crore are awaiting vessels at the port.

On the other hand, a huge quantity of shrimp worth about Tk 35 crore remain at the godowns in the absence of adequate number of containers.

Besides, there are also unsold frozen foods of Tk 20-25 crore in the greater Khulna region, which produces 80 per cent of total exportable shrimp in the country.

Officials at Frozen Food Exporters' Association and Shippers' Council of Bangladesh said that at least 40 reefer containers were needed for the shrimp stockpiled in the godowns.

Shippers' Council Chairman Hasan Maniruzzaman apprehended that Bangladeshi shrimp producers would lose markets abroad if the frozen food items ready for export couldn't be sent immediately.

He urged the Shipping Ministry, Director General of Shipping as well as Mongla Port Authority to solve the problem for the sake of the foreign exchange earning frozen food sector.

"We brought the problem to the notice of the government. But no step was taken," alleged Sardar Atiur Rahman, advisor to the Frozen Food Exporters Association.

He said that the stockpiling problem would seriously hamper the export as the buyers could refuse the shrimp if those reach them after a decline in international price.

Bangladesh earned foreign exchange to the tune of Tk 1200 crore by exporting frozen foods last year. This year, the exporters are expecting another Tk 100 crore export from the sector.

The advisor urged the government to come forward to solve the carrier vessel and container problems at Mongla port to help achieve the export target in the extreme peak season.

An Ecuadoran boy passes striking taxis on Tuesday in Quito. Taxi drivers are on the ninth day of a strike to protest the 13.1 per cent raise in gasoline prices. — AFP photo

Environment minister says

Bid to reduce dependence on rubber imports underway

Environment and Forest Minister Syeda Sajeda Chowdhury yesterday said the government is trying to reduce dependence on rubber imports by making the best use of the locally-produced rubber resources, reports BSS.

She said the government is committed to making the Bangladesh Forest Industries Development Corporation (BFIDC) a profitable concern through tapping the vast forest resources without disturbing the environment.

Inaugurating a refurbished display and sales centre of the BFIDC at Bangabandhu National Stadium arcade as the chief guest, she said more people will know about different wooden products of the corporation through this centre which will boost sales.

The minister said that the government was trying to further develop 15 rubber plantations of the country to discourage import, which was encouraged by the previous governments during the last 21 years.

She said that the government had decided not to allow establishment of any new polythene factory and planning to convert the existing ones into environment-friendly industries.

The government has made the import of quality wood taxfree to discourage smuggling of the country's valuable forest resources, she said.

Sajeda Chowdhury said the government is keen to develop the skill of the BFIDC personnel through improvement and diversification of training. A French expert will soon visit Bangladesh to assess the ongoing training programmes of BFIDC, she said.

Presided over by BFIDC Chairman Mohammad Habibur Rahman, the function was also addressed by Secretary of Ministry of Environment and Forest Syed Margub Morshed, Chairman of the Parliamentary Standing Committee on the Ministry of Environment and Forest Tabibur Rahman Sardar and BFIDC Director Engr AH Talukdar.

Syed Margub Morshed said that the opening of the centre would help make BFIDC commercially viable by raising its sales and prominence among the people.

Tabibur Rahman Sardar said that following visits to different rubber plantations of the country he was convinced that the country could substantially reduce the rubber import.

He said it is heartening that the country would not have to import electric poles and railway slippers as it could be supplied now with the help of the BFIDC treatment plant.

Russian 1st half industrial output up 3.1 per cent

MOSCOW, July 15: Russian industrial output climbed 3.1 per cent year-on-year in the first half of the year, the official Russian Statistics Agency said today, reports Reuters.

Output in June alone rose nine per cent against June 1998, versus a 6.1 per cent rise in May, and 1.6 per cent in month-on-month terms, the agency said.

Meanwhile, the country's gold and foreign exchange reserves fell to $11.8 billion on July 9 from $12.1 billion a week earlier, the central bank said.

The bank has been using reserves to intervene in the foreign exchange market and has been helping the government service foreign debt. The announced fall in reserves was the sharpest since late May.

Prime Bank Chairman Md Nader Khan presides over the fourth annual general meeting of the bank at its head office in the city yesterday. Managing Director Kazi Abdul Mazid and other directors and shareholders are also seen. — Prime Bank photo

New Janata Ins branch opens at Mohakhali

Star Business Report

Janata Insurance Co Ltd has opened a new branch at city's Mohakhali.

With this, the total number of branches of the company comes to 37, says a press release.

Chairman of the Board of Directors of the company Aziz Al-Kaiser inaugurated the branch yesterday.

Zafar Ahmed Chowdhury, Chief Adviser of Janata Insurance, was the chief guest at the function.

The function was addressed, among others, by Md Jainul Abedin, Managing Director (current charge), and the owner of the building Col. (rtd.) Ali Haider.

A large number of bankers, JIC branch managers, clients, businessmen, patrons and local clients were present.

In his address, the chief guest, urged the private insurance sector to supplement the private industrial development programmes by providing insurance support to imports of industrial equipment, instruments, and vehicles with their risk covered.

The chairman, asked the clients, business community and others to avail themselves of all sorts of facilities from the branch for the development of trade and industry.

Expats, foreigners may invest $50b in India within three years

NEW DELHI, July 15: Non-Resident Indians (NRIS) and other potential investors in the United States and other major industrialised countries could invest between 40 to 50 billion dollars in India over the next three years, a recent survey has indicated, reports PTI.

Stating this here today, SP Hinduja President of the International Hindusin Federation, an umbrella organisation of overseas Indians, emphasised that this was dependent on concrete steps being taken by the Indian government to remove the hurdles that have bedevilled foreign investors.

The hurdles include delays in clearance of projects and streamlining of procedures.

Matia for transparency in NGO expenditures

Agriculture Minister Matia Chowdhury yesterday asked non-government organisations (NGOs) to be transparent in their activities and expenditures, says UNB.

"You bring money showing the poor and hungry people. People have the right to know how the money is spent," she told a seminar on "Role and effectiveness of NGOs and private sector in agricultural development of Bangladesh."

Bangladesh Agricultural Economists' Association (BAEA) organised the seminar to mark the opening of its 11th national conference at Bangladesh Agricultural Research Council (BARC) auditorium.

State Minister for Planning Dr Mohiuddin Khan Alamgir, BARC executive chairman Dr Z Karim, BAEA general secretary Rafiqul Islam and Dr M A Quasem also spoke at the seminar chaired by BAEA president Dr S M Elias. Prof M A Sattar Mandal of Bangladesh Agricultural University was the keynote speaker.

Matia Chowdhury lauded NGOs' role in popularising hybrid maize, but criticised them for offering poor price to the farmers for their products.

She said farmers were at a loss when they saw BARC offered only Tk 5 per kg of maize. Then the government bought 21,000 tons of maize at Tk 7 per kg to protect the farmers, she added.

"So, whatever the NGOs do is not always good," she said.

The agriculture minister called upon the agricultural economists to evolve methods to maximise cereal production in a little land for a huge population.

"How shall we develop if lion's share of our money goes to buy rice, pulses, oil and other food grains every year," she said. Country's food shortfall ranges from 18 lakh to 21 lakh tons. Besides rice, the country depends on import for pulses, oil seeds and many other food grains, she added.

She urged the agricultural scientists to do research with patriotism utilising whatever facilities they are provided with.

"How can we stop those who want to go abroad and stay there?" she said, referring to the "brain drain," as raised by agriculture scientists, due to lack of research facilities at home.

She said government measures, including tax free import of power tiller, smooth distribution of fertiliser and timely and hassle-free disbursement of agricultural loan, added to the agricultural growth.

Sonali Garments gets Arch of Europe award

Sonali Garments Ltd received this year's Arch of Europe award for its performance in ready made garments business in European market during 1998-99.

The award was distributed on the 25th International Awards Commemorative Celebration in Europe conducted by Business Initiative Direction based in Madrid, Spain, says a press release.

Every year this prize is given to a firm among 9500 business organisations through out the world.

Japan's current account surplus down 24pc

TOKYO, July 15: Japan's broadest measure of trade declined 23.7 per cent in May, the Finance Ministry announced Thursday, reports AP.

The surplus in the current account decreased to a seasonally unadjusted 1.054 trillion yen ($8.71 billion) from the same month last year, the ministry said.

The current account measures trade in merchandise, services, tourism and investment. It is calculated by determining the difference between Japan's income from foreign sources against payments on foreign obligations. It excludes net capital investment.

GMG Holidays launches package to Nepal

Star Business Report

GMG Holidays, a new joint venture company between GMG Airlines and Holiday Nepal, yesterday launched an attractive holiday package for tourists to Nepal in collaboration with Bangladesh Biman on July 15.

Nepalese Ambassador in Bangladesh Madhu Raman Acharya speaking at the launching ceremony hoped that such joint ventures would help develop the tourism industry both in Bangladesh and Nepal.

Chairman of GMG Airlines Abdus Sattar, Chairman of Holiday Nepal Tuttle and Managing Director of Bangladesh Biman Air Commodore Rafiqul Islam also spoke on the occasion.

Terming Nepal as one of the fascinating tourist spots, the ambassador added that the Himalayas and the cultural diversity of the Nepalese people are real attractions for tourists.

He said Bangladesh and Nepal had discussed last year the possibility of starting direct bus service between the two countries, but this did not materialize.

The GMG Holiday package to Nepal includes return Biman air tickets, airport transfers in Kathmandu, three-night stay at the four-star Grand Hotel or five-star Soaltee Crowne Plaza Hotel, three buffet meals a day, casino coupons worth US$50 and two half-day sight seeing tours. All these will be available for prices starting from US$299.

However, the package could be tailored according to the choice of tourists. It is possible to extend the package for places like Dhulikhel, Pokhara, Nagarkot or Gaida Wildlife Camp.

SME development : Interest rate subsidy programme backfires

By Dr Zia U Ahmed and Asif M Touhid

Bangladesh, the pioneer in micro-credit, has experienced a generous flow of funds for financing the poor. The bulk of this money came from donors as loans and/or grants and is generally used for development of rural enterprises. While the micro-enterprises are getting much of the attention of the donor-financed micro-credit programmes, the small and medium enterprises (SMEs) are in much less favourable position regarding access to credit. Till now, much attention has been given by the donor agencies to alleviating the financing problems of the small enterprises. The SMEs are generally excluded from both the micro-credit programme of MFIs and the formal lending programme of the commercial banks.

Small and medium enterprises are mostly linked to a nation's economic development process. In most of the developed economies they are the largest producing sectors and account for the largest segment of economic transaction and output. They are involved in producing and marketing end of the line consumer products as well as input materials for larger enterprises producing more sophisticated outputs.

SMEs generally start with a small initial capital, most of which come from informal sources as personal finance, friends or relatives. The major portion of this capital is used to procure machinery, set-up the enterprise and cover other related start-up costs leaving almost nothing for maintaining orderly operation. As a result, firms face an incredible need for working capital in order to maintain cash flow particularly in the early years of operation. Unavailability of finance, in commercially reasonable terms, as working or expansion capital for SMEs, has been identified as a key constraint to the growth of these enterprises. Two interdependent factors result in ever-shrinking access to loans for SMEs. First, the funds that they have access to are limited, and second, the formal creditors are shy to give loans to them under the existing interest rate regime. Consequently, SMEs have suffered.

To promote the growth and expansion of SMEs, successive governments have offered incentives to the SMEs by offering them access to loans at a rate lower than the market interest rate. Under Financial Sector Reform Program (1990-91), Bangladesh Bank has set up a mandatory matrix of interest rates for lending to different sectors. For example, as of December 1998, the interest rate band for agriculture sector is 11-15 per cent, while the band for the small and cottage industry sector (term loans) is 8 per cent to 13 per cent. So, in this matrix, banks will have to give loans to small and cottage industries (i.e. defined as SME in this paper) within the interest rate band of 8 per cent to 13 per cent. Under this interest rate regime, SMEs are supposed to get loans at a rate lower than the market rate and the government would give a 3 per cent subsidy to make up for the loss to the banks for disbursement of such loans. For example, in a given economic situation if the banks are willing to offer loans at 16 per cent interest rate and if they give loans at 13 per cent interest rate, then the government will reimburse the creditor bank with remaining 3 per cent for such a loan. This subsidy payment mechanism was intended to encourage banks to open their doors to the SMEs enterprises. However, instead of helping the growth of SMEs and increasing the access to credit for these enterprises, the government's subsidy programme, in effect, has exacerbated the SMEs' problem of access to bank credit.

To a borrower, the loan interest rate is measured against the expected rate of return (the rate at which future cash inflow is discounted to equate the total outflow) in order to evaluate whether it is worth borrowing the fund at that rate. At subsidised interest rate (i.e. with price of loans being lowered) more borrowers enter the market with projects having lower rates of return. This leads to excess demand for bank credit at the subsidised rate. In order to reduce this excess demand, bank officials take recourse to non-price credit rationing mechanism. This non-price rationing manifests in many forms that increase transaction costs of the borrowers. So, ultimately, even the (lucky) borrowers do not benefit from the interest rate subsidy. As for those loan applicants turned down by the banks, the additional expenses associated with the process could have been better used elsewhere. Thus the government's interest rate cap is, in effect, hindering the growth of the SMEs by passively blocking their access to bank funds.

In addition, banks that participated in this subsidy programme, have experienced long delays in reimbursement of the subsidy from the government. In some cases, banks have yet to recover these subsidies. Not only do the banks face problems in receiving subsidy payment from the government, but they also often experience additional red tape and associated costs in processing for the subsidy. These have made the banks even more shy towards financing SMEs at the subsidised rate. As the banks are accountable to their shareholders for their action, it became unjustifiable for them to continue such credit facilitation programme. As a matter of policy, banks cannot discriminate against SMEs who apply for loans. However, in practice, bank officials often discourage SMEs in various ways, such as, terming projects as non-viable in their credit analysis. Only a handful of SMEs are able to pass through this iron cartel by having good connections with the banks or simply by being the lucky recipient of gestures offered by the banks who feel they fulfillment their quota of assisting SMEs.

As an alternative, commercial banks offer 'cash credit' (cash loans extended for a very short duration and, therefore, they cannot meet the needs of the manufacturing SMEs. Manufacturing SMEs need loans for period of 4 to 6 months during which they complete the entire manufacturing process from purchasing raw materials to delivery of finished product to retailers (often on credit). Moreover, the SMEs need fund for expansion as well as financing the equipment and building for new ventures. These are long term fund requirements that the SMEs are willing to borrow at the going market interest rate. As the banks do not provide the needed funds, the SMEs end up borrowing from informal sources at a much higher rate (sometimes 10 per cent per month or even higher) than the rate at which banks would generally offer in an unrestrained environment. This exposes their business to high-risk situation making them more vulnerable to market fluctuations. As a result, the government initiative, despite being well intended, did not work to achieve its expectation.

NASCIB and other representatives of Bangladeshi SMEs are supporting in different seminars and conferences the lifting of this interest rate band. Several studies conducted by researchers from Bangladesh Institute of Bank Management, Dhaka University and other organisations have shown that the interest rate subsidy has not aided much in the development of small and medium enterprises. It is very unlikely that subsidised interest rates will help them in the future. In fact, studies show that interest expense is a very small component of the total cost of production and appears not to be a very significant factor in investment decision. In this context, it is safe to conclude that its influence on the SME development is not of much importance. Rather, SMEs would much prefer increased access to fund at the right time and in the right amount. Experiences of success with the micro-credit operation in Bangladesh and other similar economies clearly indicates that the small borrowers are more concerned with the timely availability of loans rather than the interest rate of loans. In Bangladesh the successful micro-credit programme are charging effective interest rates between 20 and 36 per cent. The small borrowers are borrowing at those rates and are successfully repaying as well as expanding their operations. Likewise, in the case of SMEs allowing the banks to charge market interest rate would greatly increase SME access to formal credit.

The JOBS programme of USAID, in its own research, has also found substantial support in favour of the argument to abolish the interest rate band of 8 to 12 per cent on SME loans. JOBS, therefore, recommends that:

1: The government allows the banks to charge market based interest rate for SMEs without disturbing the price mechanism directly; and

2: The banks provide some incentive bonus to the good borrowers of SMEs after full and timely repayment of loans.

These actions will provide necessary incentives for banks to finance SMEs and increase their access to bank loans. As well it encourage good financial discipline among the borrowers. Such access to credit should provide the necessary stimulus for economic development of Bangladesh in a free market environment.

The authors are Senior Policy Advisor and Assistant Policy Coordinator respectively of JOBS Programme, a USAID initiative for enterprise development in Bangladesh. Views expressed here are gathers from the experiences and discussions with banks, small and medium industries. The paper does not reflect in any way the views of JOBS Programme or USAID.