Star BUSINESS

E-mail: business@thedailystar.net

Stocks fall marginally

STAR BUSINESS REPORT

Stock prices on the Dhaka and Chittagong stock exchanges fell marginally yesterday for the third consecutive day mainly due to a 'profit taking selling pressure'.

Besides, turnover on the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) also came down to Tk 89.19 crore and Tk 24.90 crore.

The DSE All Share Price Index fell by 2.38 points or 0.16 percent to close at 1454.57 points, while the CSE All Share Price Index dropped by 12.08 points or 0.29 percent to close at 4076.95 points.

Meanwhile, the DSE General Index also decreased by 4.79 points or 0.26 percent to close at 1775.73 points, while the CSE Selective Categories declined by 8.51 points or 0.31 percent to close at 2673.08 points.

Stockbrokers said share prices fell due mainly to continued profit taking by investors.

Most of the securities ended down yesterday. Of the total 207 issues traded on the DSE, 41 gained, 146 suffered losses and 20 remained unchanged.

On the CSE, a total of 104 issues were traded. Of them, 27 advanced, 72 declined and five remained unchanged.

BRAC BANK MAKES DEBUT TOMORROW

The share trading of Brac Bank will begin on both the bourses simultaneously from tomorrow.

The shares of the bank would be traded under the settlement category N, that groups newly listed companies.

Earlier, the bank had floated initial public offering (IPO) with 50 lakh shares to the public at Tk 170 each, including a premium of Tk 70 per share to raise Tk 85 crore from the capital market.

Rated A in long term and ST2 in short term until March 31 of 2006, earning per share of the bank stood at Tk 15.74 while the net asset value stood at Tk 202.31, as per the prospectus.

The third generation bank that started operations in mid 2001 is the 26th listed bank on the DSE and CSE.

Tk300 annual fee for BO account on cards

Bid to discourage use of 'shady BO accounts' in IPOs

SARWAR A CHOWDHURY

Securities and Exchange Commission (SEC) is going to charge an annual maintenance fee of Tk 300 for each beneficiary owner's (BO) account in a bid to discourage use of 'shady BO accounts' in IPOs.

SEC sources said a draft proposal has already been prepared and the new fee may be effective from April or May of this year.

Now, the BO account holders have to pay a custody fee annually to the Central Depository Bangladesh Ltd (CDBL), if there are shares in the accounts. The custody fee is calculated on the basis of existing shares in a BO account and an account holder has to pay 0.05 percent of the current market value of the shares.

When the new fee takes effect, the BO account holders will not have to pay the custody fee.

According to sources, although around 8.2 lakh BO accounts have so far been opened, there are shares only in 1.45 lakh accounts. The rest accounts are used only to participate in the IPOs (initial public offerings) and as the accounts remain empty, the account holders do not pay any custody fee.

A group of so-called investors participate in the IPOs with many BO accounts, which ultimately cut the real investors' competitiveness, said a SEC high official.

On the other hand, the institutional investors have to pay much higher custody fee than that of individual investors as the institutions keep a huge number of shares in their accounts.

The sources said of the annual fee of Tk 300, a depository participant will get Tk 150, the CDBL will receive Tk 100 and the SEC will get Tk 50.

The SEC official said the capital market regulator will take a portion of the fee to be self-sufficient as well as to reduce the financial dependence on the government.

Before implementing the new initiative, the depository regulation and by-laws of the CDBL will be changed.

On the new initiative, Farhad Ahmed, executive director (Supervision and Regulation of Markets Intermediaries Department) of SEC, said, "The process is going on."

"Imposition of the annual maintenance fee will discourage the opening of BO accounts by using other persons' information. Besides, the institutional investors will also be benefited," he added.

PHOTO: STAR

Erik Aas, CEO and managing director of Grameenphone Ltd, speaks at a press conference in Bogra yesterday. Stein Naevdal (2-R), chief marketing officer, Syed Yamin Bakht (L), general manager (Information), and Emon Kalyan Datta, head of Rajshahi region (Sales and Distribution) of the company, are also seen.

GP opens 80 communication info centres in Rajshahi div

STAFF CORRESPONDENT, *Bogra*

Leading cellphone operator Grameenphone Ltd has so far opened 80 communication information centres in 16 districts of Rajshahi division.

Erik Aas, CEO and managing director of the operator, said this at a press conference in Bogra yesterday.

Stein Naevdal, chief marketing officer, Syed Yamin Bakht, general manager (Information), Ghalib Ahmed Ansari, assistant general manager (Market Communication), and Emon Kalyan Datta, head of Rajshahi region (Sales and Distribution), among others, were present at the press conference.

Racial divides threaten Malaysia economy

AFP, *Kuala Lumpur*

Growing racial divides are undermining Malaysia and the government must act or face severe social and financial consequences, an anti-corruption watchdog warned Monday.

Transparency International Malaysia president, Ramon Navaratnam, said racial polarisation coupled with weak institutions, rising corruption and poor governance were deterring investors and weakening competitiveness.

"We are beginning to see more and more signs of what could be indications of a failing state," he said at a conference on the 2007 outlook for Malaysia.

"If we don't address these issues now, it's like gangrene. It gathers in strength and intensity and causes major problems."

Navaratnam, an influential former senior treasury official, said the country was going through a "bad patch" with deteriorating race relations between its majority ethnic Malays and minority Chinese and Indians.

"This will affect confidence, this will affect investment and affect growth and then, worse still, affect our ability to distribute (wealth)," he told reporters later.

"Migration is rising, people are leaving. I understand the young people ... are reluctant to come back."

Navaratnam said it was critical for the government to review its economic policies, especially those which favour the Muslim Malays, who lag economically behind the Chinese.

Phoenix Leasing gets new name

STAR BUSINESS REPORT

Phoenix Leasing Company Limited, a non-banking financial institution, has formally changed its name as Phoenix Finance and Investment Limited.

The name of the financial institution, established in 1995, has been changed with a view to reflecting properly the financial activities it has been doing, A Quadir Choudhury, the company's managing director, said at a press conference in Dhaka yesterday.

"In the very beginning, the company was involved only in lease financing but its activities have been diversified over the years into term finance, home loan, car loan, team deposit schemes and corporate financial services, which the previous name did not reflect," Choudhury said.

The new name would help understand the company's functions better, he said, adding that the previous name only partially reflected its activities.

He said non-banking financial institutions have very important roles to play in promoting business and small industries, especially for the small investors who do not always have access to banks.

Presently, there are 28 non-banking financial institutions in Bangladesh and the sector has been showing 28-30 percent year-to-year growth in the last five years, the press conference revealed.

Phoenix has so far provided Tk 1,500 crore loans with a 98 percent recovery rate.

British Airways strike called off

AFP, *London*

A threatened two-day strike at British Airways this week was called off Monday after the airline hammered out a last-minute deal with unions.

But the accord with cabin crew unions will come too late to prevent some disruption to flights at London's Heathrow and Gatwick airports on Wednesday and Thursday, the airline added.

The Transport and General Workers' Union has also agreed to call off two planned 72-hour strikes next month.

"We are pleased that our negotiations with the T and G have resulted in an agreement that removes the threat of strikes," said BA chief executive Willie Walsh.

"Unfortunately, the decision has come too late to prevent disruption to the travel plans of tens of thousands of our customers tomorrow and Wednesday," he added.

But he said: "We will endeavour to reinstate as many flights as we can for those days. We will give more details later today."

The strike call led the British carrier to announce last Friday that it planned to cancel all flights from Heathrow on Tuesday and Wednesday, and most from Gatwick. In all over 1,000 flights were threatened.

Bangladesh telecoms sector needs long-term tax framework

TM CEO Yaacob tells The Daily Star

MD HASAN, *back from Kuala Lumpur*

Bangladesh telecoms sector is in need of a detailed and long-term regulatory framework with regard to taxation so that foreign investors may have a clear overview and be encouraged for more investment, said Yusof Annuar Yaacob, Chief Executive Officer of Telekom Malaysia (TM) International.

"It would be more helpful for both the government and foreign investors if there is any clear long-term strategy regarding tax structure," he told The Daily Star in an interview at the TM head office in Kuala Lumpur on Thursday.

If any foreign investor finds any sudden change in the policy on any front, then he or she becomes disappointed, Yaacob said, adding "if Bangladesh government provides a tax structure in detail for the next five years to the investors for any sector, they would feel encouraged to invest".

Yaacob, who has investment banking and corporate management experience, is, however, very optimistic about Bangladesh's telecommunication market.

While talking about TM experience in Bangladesh, the company CEO focused on the company's future investment plan, corporate social responsibility (CSR) and business environment in Bangladesh.

He said in the year 2007, TM would invest about $250million in Bangladesh for expanding AKTEL network and other activities, especially for doing CSR programmes. The amount of such investment was $200milion in 2006, he added.

Yaacob said,"Being the second player in the Bangladesh mobile market, we may invest more. But if you ask about our climbing to the number one position, the answer is I am not sure. It is very difficult."

TM started its telecoms business here in 1996 in association with a local AK Khan & Co. Limited and launched mobile phone operation under the brand name AKTEL the following year.

Yusof Annuar Yaacob

Yaacob described the TM's long experience here as 'very good', because AKTEL is now in the second position with having 5.6million subscribers up to December 2006.

"We have done very well in Bangladesh as the market has lot of challenges and competition," he said, adding "although per average revenue per user (ARPU) there is very low at about $4.5, I think it is a very big market for telecommunication business".

Yusof Annuar Yaacob, who is also director of many public listed and private companies his home and abroad, anticipates a huge competition in the mobile phone business after hitting the operation of Dubai-based Warid in Bangladesh.

The venture of Warid in cell phone business in Bangladesh market would be very well for customers, as other operators might cut tariff structures, he also assumed.

"I think Warid will adopt an aggressive strategy to enter Bangladesh market. And as a result, all operators will have to think about what to do," he said.

While asked if there is any chance of merger among the mobile phone operators in Bangladesh, the TM CEO did not rule out the probability. He, however, said the merger issue would be driven by market competition, but it might not happen in a near future.

Telekom Malaysia now owns 70 percent shares of AKTEL brand in Bangladesh. Yaacob hinted no immediate plan to take buy the rest of shares of the joint venture.

According to the TM overseas strategy it has no plan to invest in Bangladesh's fixed phone market, he said, adding that TM is likely to do business confidently in Bangladesh by availing of the ample opportunity of low penetration rate.

Bangladesh has over 140million people and in this market a company like AKTEL needs to do more and encourage the people to own a mobile phone, the TM chief opined.

Citing an example, he said the TM has opportunities to introduce the AKTEL brand among Bangladeshi migrant workers in Malaysia.

"We are able to develop even AKTEL brand in Malaysia for Bangladeshi workers. We need to develop such activities, although we have not done it so far", he maintained.

On the Bangladesh business environment, he said some investors fear hindrance in investments because of political problems in the country.

"But my view is different. I did not think that way. I hope the government would come forward again to resolve any kind of problem. It is a difficult market, but also good for business," he went on.

"There might be some political issues in Bangladesh. As an overseas investor, TM observed two general elections there. We see there is no reason to leave Bangladesh as foreign investors. We wish to stay in Bangladesh for a long time," Yaacob concluded with a hope for doing huge business in Bangladesh over the next few years.

Industrial Development Leasing Company (IDLC) of Bangladesh Ltd and Modern Erection Ltd (MEL) signed a contribution agreement on Thursday. Under the deal, the companies will conduct a pre-investment feasibility study of an industrial water and effluent treatment plant. Jawaherul Ghani, managing director of MEL, and Anis A Khan, CEO and managing director of IDLC of Bangladesh, signed the deal.

Oriental Bank scam: Lessons learnt

MAMUN RASHID

Subsequent to Om Prakash scam couple of years back, the Oriental Bank debacle again pointed finger at the missing link between core risk identification and mitigation in Bangladesh's banking industry, despite series of reforms carried out or driven by the development partners and subsequent governments. If we go for the route-cause analysis of this scam, the snapshot is horrifying. The bank did not hesitate to be on the slippery slope to be able to lend fresh Tk 380 crore, whereas it was unable to pay around Tk 200 crore to its large depositors like other banks and government undertakings whose term deposits had already matured. Most of these loans over the last one and a half years were given in violation of the stipulated guidelines of the central bank. According to Oriental Bank's branch executives, the loans were granted on verbal instructions from the top management. The classified portfolio of Oriental Bank is now estimated to be Tk 1154 crore.

In view of the BCCI fallout and Harshad Mehta scam in India in the early nineties, Barings fallout, Allied Irish Bank treasury scam or even BCI debacle in Bangladesh, let us identify few major findings and see what went wrong in each case.

Case# 1

During the investigation, the central bank found that a section of officials of different Oriental Bank branches had removed transaction records of many accounts from the computerised database and embezzled a large amount of money through this process.

Lesson#1

Robust IT platform as well as standard operating procedures are must to stop all sorts of manipulations, which were severely missing in The Oriental Bank Limited. This is also a mandatory process to assess the actual quality of any bank's portfolio. Because any scope for tempering makes the portfolio quality doubtful and unpredictable

Case# 2

According to the central bank rules and regulations, a bank cannot lend money to a person or organisation amounting over 15 percent of its total capital. But Oriental provided large amounts of loans from its different branches bypassing the central bank's rules and regulations, various reports said.

Lesson#2

An alarming picture of an end-to-end failure. This was a severe regulatory violation surprisingly not unearthed during annual audit by the central bank, statutory audit firm and bank's internal audit. This is high time we should look into our audit standards at all levels. The banking regulator and the regulator of the independent audit profession (The Institute of Chartered Accountants of Bangladesh) must look closely at this issue of statutory bank audit quality and corresponding costs. The general defence put forward by some independent bank auditors is that the extremely low audit fees do not allow them to comply with the requirements of BSA 220: Quality Control for Audit Work.

Case# 3

The central bank report said some officials of Oriental Bank in different branches also looted a large amount of money in the name of incentives marked for them for increasing deposits in the bank by expanding the client base. The report also said these officials pocketed a huge amount of incentives, but there is no document on how much money was paid to them by the bank against what amount of deposits. Also in the name of incentives to bank officials for bringing in money from the call money market, the bank paid an unusually large amount to them, the report added.

Lesson#3

The message here is there should be an independent and separate monitoring department within the branch level. Such independent body must handle any such incentive issues for overall compliance. Further there must be a full proof maker -checker process in place. Usually the compliance or internal control departments do these jobs for banks.

Case #4

The central bank report said in the name of importing waste papers the embezzlers plundered a total of $1.8 lakh out of the country through Oriental's Gulshan branch with the help of a section of officials. When the central bank investigation team sought documents related to these irregularities, officials of Oriental Bank submitted fake documents to the investigation team. The central bank investigation failed to trace whether the said imports had entered the country at all. The Oriental Bank officials also failed to show any customs document issued by the Chittagong Port, the Bangladesh Bank report said.

Lesson#4

Another issue that could not arrest the attention of central bank's audit, statutory audit firm and bank's internal audit. This above fraud happened in 2003 and there is a quarterly report on the bill of entry that all banks submit to the central bank. Apparently this process should again be reviewed to measure its efficacy. Because, apart from everything else, central bank should have a robust and automated matching system between the bill of entry and the fund remitted outside and we have seen, the banking watchdog being very strict on this issue with other banks.

Case# 5

Documents reveal that the Oriental Bank lent nearly Tk 380 crore to different business enterprises in 17 months till May 2006 upon instructions from the bank's new owner and top management.

Lesson#5

This is another failure to track down the insider lending mainly attributed by inadequate audit standards, poor credit due diligence and zero level of Know Your Client (KYC) process.

Summary: Back to Basics

It is quite alarming to see from the above that the basic control measures like standard operating procedures, escalation and follow ups, compliance, internal audit, statutory audit, regulatory audits, risk approvals, board's supervision and management integrity-- all simultaneously collapsed to allow such activities for a significant period of time. This is high time we should re-look at all levels of audit and compliance standards, delivery platforms and client due diligence of the banks along with monitoring efficacy of the central bank. Falling out on these very basic rules of the game is especially shocking, when we were quite happy and comfortable with the reforms carried out in the financial sector and development partners' commitment to continuous reforms in the commercial banks as well as improving the supervisory capacity of the regulator. A transparent, effective, accountable and well encompassing financial sector is a minimum pre-requisite for writing the growth cheque for any economy or market.

The writer is a banker

IDLC, Modern Erection sign agreement

In order to conduct a pre-investment feasibility study of an industrial water and effluent treatment plant, Industrial Development Leasing Company (IDLC) of Bangladesh Ltd and Modern Erection Ltd (MEL) signed a contribution agreement on Thursday.

IDLC, which signed the deal on behalf of LEIC, is a joint venture multiproduct financial institution while MEL operates in light engineering sector, according to a press release.

LEIC (Local Enterprise Investment Centre) is a facility funded by the Canadian government through the Canadian International Development Agency (CIDA) and managed by IDLC of Bangladesh Ltd.

Jawaherul Ghani, managing director of MEL, and Anis A Khan, CEO and managing director of IDLC of Bangladesh, signed the deal while Md Rafiqul Alam, director of MEL, Yongbok Jo, deputy managing director of IDLC, and Israt Ara Younus, centre director of LEIC, were also present.

The outcome of the study will help MEL improve its production process and provide quality water and effluent treatment solutions.

Tea plantation project launched in Bandarban

BSS, *Chittagong*

Bangladesh Tea Board (BTB) yesterday formally launched a project to supplement its efforts for expanding a sustainable tea plantation in vast unutilised lands in Bandarban district.

European Union (EU) and the BTB jointly financing the around Taka 95 crore project titled "Expansion of tea export by raising and distributing high yielding variety (HYV) clonal tea plants to the poor ethnic small tea growers of Bandarban hill district" for one year tenure.

The main objectives of the project are to produce and distribute 1.5 million HYV Clonal tea saplings among the poor small ethnic people of Bandarban district to help facilitate them with a sustainable tea plantation, which would contribute to improve their living standard.

The ultimate goal of the project is to increase tea production in the country by bringing huge unutilised prospective land under tea plantation .