

International Business News

Unchecked biofuels could lead to food shortages: UN

Major investments in agrofuel development should be put on hold unless they meet stringent criteria, a UN expert said in a report Tuesday, warning that pushing ahead could lead to food shortages.

Efforts should be made to reach an international consensus on biofuels and agrofuel development to avoid skewed development in producer countries, said Oliver de Schutter, the UN's Special Rapporteur on the Right to Food.

"The conclusion that emerges... is that the current path in the development of agrofuels for transport is not sustainable, and that if such development goes unchecked, further violations of the right to food will result," he said in the report published on Tuesday.

Before an international consensus was formed on the issue, any major new investment in agrofuel development should be allowed only if assessments were "positive in terms of its implications, both at the domestic and international levels," he added.

The development of biofuels has accelerated as major fuel-consuming countries such as the United States promoted the use of the fuel as a greener alternative to fossil fuels.

Higher oil prices have meanwhile encouraged consumers to embrace biofuels.

EU sees eurozone flirting with recession

The 15 countries sharing the euro are teetering on the brink of recession, the European Commission said on Wednesday, slashing its economic forecasts.

Although the bloc as a whole was forecast to escape a recession, Germany, Spain and non-eurozone member Britain will not be so lucky, according to estimates from the European Union's executive arm.

The commission cut its eurozone growth estimate for the whole of 2008 to 1.3 percent from a forecast of 1.7 percent dating from April, which would mark a sharp slowdown from the solid 2.6 percent growth recorded last year.

"The economic slowdown will be quite pronounced and longer than initially foreseen," said Luxembourg Finance Minister Jean-Claude Juncker, who chairs regular meetings of his eurozone counterparts.

After the eurozone economy contracted 0.2 percent in the second quarter, the commission predicted it would stall in the third quarter and expand only 0.1 percent in the final three months.



An Indian model (2-R) poses with the newly unveiled range of FireFox WSD bicycles along with Managing Director of FireFox Bikes Shiv Inder Singh (L) and International Territory Manager Peter St Onge (R) at a launching ceremony in New Delhi yesterday. FireFox has launched its new range of bicycles especially designed for women.

Thai political turmoil weakening growth

Thailand will likely miss the government's 6.0 percent growth target this year, the finance minister said Wednesday, saying the nation's political stalemate had sapped investor confidence.

"When investor confidence is affected, it will affect economic expansion too," Surapong Suebwonglee told reporters.

"The political situation now is something that has never happened before and that is unlikely to resolve in the near future," he added.

Surapong spoke one day after the Constitutional Court forced prime minister Samak Sundaravej out of office, ruling that he had illegally accepted payments for hosting TV cooking shows.

The verdict heightened Thailand's political turmoil. Protesters have barricaded the main government complex for more than two weeks and a state of emergency has been imposed across Bangkok.

New RBI chief prioritises containing inflation

The new head of Reserve Bank of India Duvvuri Subbarao has said his priorities are controlling inflation and pushing financial sector reforms to accelerate high economic growth.

Addressing his first press conference on assuming charge as the RBI governor, he gave little indication of the high interest rate regime, ushered in by his immediate predecessor Yaga Venugopal Reddy, moderating and said it was too early to read too much into a slight decline in headline inflation which edged up close to 13 per cent—a 16-year-old high—but later fell to 12.34 per cent last week.

Subbarao, an economist and a senior bureaucrat, said it was essential that inflation and inflationary expectations were contained to sustain long-term economic growth. It was too early to conclude that an arrest in wholesale price index was a "discernible trend".

STOCKS

Only a few steal the show



A file photo shows investors looking at computer screens during trading hours at a brokerage house in the DSE building.

SARWAR A CHOWDHURY

Titas Gas, the state-run gas distribution and transmission company, tops the turnover leaders' list of Dhaka Stock Exchange for a fifth week. Prior to Titas' entry, Beximco Pharma, ACI Limited and Square Pharma have also topped the list in July.

Up to 20 companies alternated on the list of 'Top Ten' at various positions in the past.

Despite having over 390 listed securities on the premier bourse, trends reveal that trading was mainly concentrated upon a small number of securities.

Statistics show that the limited number of scrips accounts for 40 to 50 percent, on average, of the total turn-

over on the DSE, while certain shares even account for more than 50 percent of the turnover.

Investors rallied for shares of the selective 15 to 20 companies and the trend continues. This move also depicts the 'limited' choice of the investors' and the low depth of the market.

Trading that revolves around fewer number of securities is enough to create an imbalance in the market. An analysis of trading statistics displays that such imbalance has already conceived in the market, an unhealthy indication.

The concentration on trade of handful securities is courtesy of several reasons, the primary being the speculative nature of investors. Investors

take decisions based on speculations or rumours instead of considering the company fundamentals or the company's financial strength.

Speculations or rumours revolve around some specific companies in most cases and that leads the unknowing investors to rally for those shares.

The Titas Gas case reveals that there is a promising rumour that the company is going to announce a healthy dividend for the shareholders soon. Investors are even speculating that the company may declare 50 percent dividends.

This is the only reason investors are focusing on Titas Gas shares, heading the company to top the turnover list for several weeks, also portraying

the speculative nature of the market.

Even if rumours prove true, it does not guarantee that the company will be able to continue its grasp on the top position of the list week after week.

Allegations have it that a group of influential investors reaped benefits and pocketing profits through dissemination of such corporate information. Regulators and stock exchange authorities have been trying hard to trace the mastermind behind the spread of rumour. They failed.

Although shares from the banking sector largely dominate the Dhaka stock market, which are also considered to be quality shares, the banks' representation in the turnover list is strikingly low. In the last

two months, only two or three banks occupied spots on the list, if not any.

Bank shares account for more than 51 percent of the total market capitalisation, followed by around 12 percent from the fuel and power sector, 10 percent from pharmaceutical companies and more than 5 percent from cement and insurance companies.

Market experts say that despite having companies with good fundamentals, such as banking sector shares, the investors' focus is only on shares whose prices fluctuate often, so that they can profit in a short span of time.

"Such trends and the inclination of investors towards speculation are not healthy for a market like ours," DSE Chief Executive Officer Salahuddin Ahmed Khan thinks.

Increasing the depth of the market is one way to come out from this situation, he says, adding that it could be accomplished if big companies from various sectors list themselves on the exchange.

Additionally, fund managers, including institutional investors, who are considered to be major market players in any stock market, should

always remain active, he points out.

However, if institutional investors follow the lead of the retailers' tendency to chase rumours or speculations, there will be no positive impact on the market, the DSE chief says.

Despite the market gaining in the last two weeks, the fact remains that only a few company's shares are heading the rising trend. On some days it can be seen that the market gains, but most securities traded down.

Yawer Sayeed, managing director and chief executive officer of AIMS of Bangladesh, says recovering from the recent nine-week long slump, the market has been stabilising, which is a good sign for the market.

"Now the market awaits good news, but trading is highly concentrated on 15 to 20 stocks. It is a rather unhealthy sign," he says.

The horizon of investors' choices has to be widened with new scrips entering into the market, accompanied by policy support from the regulators, Sayeed suggests.

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Yesterday's top 10 turnover leaders

Securities	Closing prices
Titas Gas	Tk 485.50
Beximco	Tk 138.80
ICB 2nd NRB	Tk 236
Grameen 1 Scheme 2	Tk 50.10
ACI	Tk 529.80
AIMS 1st Mutual Fund	Tk 13.25
Beximco Pharma	Tk 112.30
Lanka Bangla Finance	Tk 225.10
Grameen One	Tk 105.80
S Alam Cold Rolled Steels	Tk 401.50

COLUMN

IFTY ISLAM

A leveraged strategy for aid budget

We have just seen the conclusion of the 3rd High Level Forum on Aid Effectiveness that was held September 4 in Accra, Ghana, attended by ministers from both donor and developing countries as well as the multilateral agencies.

With an aid budget in excess of \$ 1.2 billion, it is important that the people of Bangladesh be engaged in the debate on whether the resources are being effectively employed to help achieve the Millennium Development Goals (MDG), especially poverty reduction via faster growth, reducing corruption and better political, regulatory and corporate governance.

The UK via DFID is Bangladesh's largest bilateral partner, currently providing approximately 20% of Overseas Development Aid (ODA). Three of the key stated goals and challenges that have emerged from conference, the so-called "Accra Agenda for Action," include:

1) Country ownership is key. Developing country governments will take stronger leadership of their own development policies, and will engage with their parliaments and citizens in shaping those policies. Donors will support them by respecting countries' priorities, investing in their human resources and institutions, making greater use of their systems to deliver aid, and increasing the predictability of aid flows.

2) Building more effective and inclusive partnerships. In recent years, more develop-

ment actors - middle-income countries, global funds, the private sector, civil society organisations have been increasing their contributions and bringing valuable experience to the table. This also creates management and coordination challenges. Together, all development actors will work in more inclusive partnerships so that all our efforts have greater impact on reducing poverty.

3) Achieving development results and openly accounting

strategy for Bangladesh. Before coming to this, it is worth noting that Least Developed Countries' (LDCs) over-reliance on aid has been a regular topic of discussion among development economists. In an article in the September 9 Financial Times, Peter Wood, former Professor of Economics at Oxford and DFID Chief Economist 2000-2005 noted that "Some developing countries, most of them in Africa, have had high levels of aid dependence in excess of 10 per

cent of gross domestic product, or half of government spending for decades. It is questionable whether this has been helpful." He outlined a plan for donor agencies to limit aid to less than 50% of domestic tax revenues. While this is a laudable medium-term goal, for a growth capital starved economy like Bangladesh, there can be little dispute in the critical role that aid plays. What I want to discuss is how can the aid budget be targeted, much like

(especially power); 3) more effective civil service. If we think of economic growth in athletic terms, this is the oxygen boost needed to see growth jump from 6% currently to 8%. Access to finance can be split into external and internal sources. On the external side, a greater portion of Bangladesh's development budget should be spent on helping facilitate increased FDI. This might include efforts to support Brand

Bangladesh Initiatives as well as reforming the Board of Investment (BoI). The IFC-BICF is already encouragingly supporting enhancing BoI effectiveness in co-operation with the FBCCI. On internal access to finance and developing domestic capital markets, the ADB is already supporting efforts in capacity building for stock market regulators. We also need a renewed push to develop the bond markets. We need greater focus on the evolution of a private equity and venture capital capability in Bangladesh that can be the critical link between FDI and access by local companies to greater growth, strategic and risk capital. On civil service reforms, the Bangladesh Enterprise Institute is working actively with the support of a number of multilaterals on capacity building in the civil service. The World Bank and UNDP have made a valuable contribution towards alternative energy and disaster resilience. These are all positive trends. But in terms of areas of potential change, when discussing the effectiveness of foreign aid, an often-heard complaint is that donors have a "consultant culture" with an over-reliance on expensive foreign firms that offer poor value-for-money. They typically engage for short periods of time with little continuity in focus or local knowledge or context. Clearly there is a need for overseas expertise when it is not available within the country. Foreign consultants can also at times bring global

perspective in technical areas such as how Public-Private Partnerships have worked in different parts of the world. But there may be a suspicion that some globally renowned consultants drag out projects as a consequence of a lack of familiarity with the situation on the ground. Clearly Bangladesh needs to develop its local experts and one way this might happen is if the larger donors insisted large firms like PWC and Bearing Point used part of the Bangladesh revenues to open a Dhaka office that employed more locals. This would encourage valuable knowledge transfer that would offer sustained long-term benefits. In conclusion, as the Accra accord states, Bangladesh needs to take greater ownership and participation of its development budget to achieve the maximum impact on economic development. This is a goal that is not only critical to achieving rapid poverty reduction, but one the First World taxpayers funding development agencies would undoubtedly approve of. The decision by DFID to solicit feedback on their website on how Bangladesh can use its aid budget is a welcome first step. We are all stakeholders in process and should seek cooperative solutions in getting leverage from Bangladesh's large aid budget.

The writer is the managing partner of Asian Tiger Capital Partners and welcomes feedback at ifty.islam@at-capital.com.

Private sector FDI & portfolio flows to developing countries growing more rapidly than donor aid

Flow type	(\$ billions)							
	2000	2001	2002	2003	2004	2005	2006	2007
Foreign aid	66.6	N/A	69.8	69.8	77.0	85.1	85.4	87.4
Net FDI flows	144.5	155.0	137.0	122.8	162.8	208.5	227.4	287.2
Net debt and equity flows	150.2	153.6	144.4	209.9	322.6	416	524	797.5
Current account balance	36.3	12.8	62.0	116.9	164.3	309.5	431.0	425.9
Change in reserves (= increase)	-42.6	-80.4	-166.5	-292.4	-402.4	-390.8	-634.2	-1090.7

Source: IFS, World Bank Debtor Reporting System and staff estimates

Note: e = estimate