

International Business News

IMF plans \$100b fund to help poor mitigate climate effect

AFP, Davos, Switzerland
The IMF is working to create a 100 billion dollar Green Fund to help countries mitigate the effects of climate change, the agency said on its website Sunday.

The managing director of the International Monetary Fund Dominique Strauss-Kahn told the Davos forum that it was necessary to "think out of the box" on the issue of funding since developing countries do not have the funds to pay for these mitigation measures.

Developed countries' ability to pay is also limited as they are now weighed down by state debt since funds have been used to deal with the financial crisis, noted Strauss-Kahn.

As a result, "we'll have to find innovative ways to finance it," he said.

"We're going to provide some ideas, built around a Green Fund devoted to finance 100 billion dollars a year which is the figure currently accepted for addressing the problem based on the capitalisation coming from central banks, backed by special drawing rights issued by the fund."

Special drawing rights are an international reserve asset created by the IMF in 1969 as a supplement to member states' official reserves. They can be exchanged for common currencies.

India reaffirms opposition to binding carbon cuts

AFP, New Delhi
India reaffirmed to the United Nations that it would reject any attempt to impose legally binding climate change goals, but pledged to reduce emissions intensity.

In an endorsement of December's much-criticised Copenhagen Accord, the environment ministry in New Delhi said it had submitted plans to reduce emissions intensity by 20 to 25 percent by 2020 compared to 2005 levels.

India's proposal, first made in parliament in December ahead of the Copenhagen summit, came before a UN deadline on January 31 for nations to re-state their climate change policies.

In a statement late Saturday, India said its UN submission "clarified that its domestic mitigation actions will be entirely voluntary in nature and will not have a legally binding character."

The cut in emissions intensity means that each dollar of gross domestic product (GDP) in India -- a rapidly developing economy -- must generate 20 to 25 percent fewer emissions by 2020 compared to 2005.



A starfruit vendor falls asleep while waiting for customers in Jakarta yesterday. Indonesia's economy has returned back on track following a period of lower growth last year due to the global economic crisis, World Bank economist Timothy Bulman said, as local media reported.

Japan carmakers must restore reputation: Media

AFP, Tokyo
Japanese media on Sunday urged domestic carmakers to restore their reputation for "quality and safety" following Toyota's massive recall of cars worldwide because of faulty accelerator pedals.

"The 'myth of quality' at a crossroads," a headline in the business daily Nikkei said a day after Honda joined Toyota in recalling cars worldwide as it cited a potential fire risk linked to a window switch problem.

"Japanese automakers should keep in mind that quality and safety form the foundations of public trust in the Japanese way of manufacturing," the mass-circulation Yomiuri Shimbun said in an editorial.

Media blamed the rash of recalls largely on standardised use of parts in different models and in different countries for cost-cutting purposes.

"It is necessary to fully examine whether (Toyota) has been lax in designing and quality control," said another major daily, Mainichi Shimbun.

Philippines growth not enough under Arroyo: Official

AFP, Manila
Filipinos have mostly not benefited from the country's economic growth -- equal to about five percent annually -- during President Gloria Arroyo's seven-year term, a top official admitted Sunday.

While the government had aimed for seven percent growth annually, the actual figure was insufficient to lift significant numbers out of poverty, Romulo Neri, head of the government-run pension system, said in a gloomy assessment of the outgoing leader's period in office.

"Five percent is not good enough. We need about seven, possibly eight percent growth. That is why... this administration's goal was to reach seven percent on a consistent basis," he said in a forum aired by ABS-CBN television.

"Unfortunately we have been caught up in some crises and we were not able to sustain it," said Neri.

LIFESTYLE

Tiny business, shiny prospect

KHONDOKER MD SHOYEB

Md Rafique, a mobile credit retailer, was happy as Dhaka University reopened in January after a winter vacation. He pinned hopes on students for brisk sales on the campus. The students are a key driver of mobile credit sales at his stall.

Rafique's stall is one of the millions that are widely known as 'cell phone balance refill spots' or 'scratch card retail outlets' or 'points of sales'.

The emergence of this business was propelled by expansion of the country's fast growing telecom sector. More mobile operators bring in more retail outlets. Grameenphone set off the trend with Flexiload on April 28, 2005.

Later, other operators followed suit. Teletalk was the latest to enter the scene with TeleCharge, an electronic recharge system.

At a retail outlet, a person can add additional credit to his mobile. The retailer does so with a scratch card or by sending credit from his cell account to the customer's.

A retailer gets small commission, ranging between 2.75 percent and 3.15 percent from his distributor through dedicated sales representatives.

That is not all. He will have to press all 11 digits of a mobile number correctly to transfer credit each time. If he makes a mistake, it will be a costly one.

But sellers are sure about their profits. "Whatever I invest today will never go to waste," said Anwar Hossain Shiplu, a retail outlet owner in Mohammadpur. "I profited more than Tk 11,000 last month by investing Tk 15,000 daily."

More than 25 lakh people are involved in this business in Bangladesh. Of the six operators, GP alone has 1.2 lakh points of



A retailer loads a customer's mobile phone with credit. The number of the retailers has now crossed the 25 lakh mark since the launch of Grameenphone's Flexiload in 2005.

sales around the country, according to a recent report published on the website of Telenor that owns GP.

GP has 1.04 lakh top-up retailers and 14,928 telco retailers countrywide.

Some retailers run only the outlets while others take it up as part-time business.

Md Hasan, a part-time retailer on the Dhaka University campus, said: "I can hardly load Tk 2,000 a day as most students prefer to refill Tk 10 to Tk 20 at a time."

However, trade volume increases every time an operator offers new promotions and is reduced when students leave the

halls during vacations.

These part timers now rule the market. It is a common sight to see a man sitting on a roadside, offering to recharge credit.

All retailers depend on students, who account for a major portion of 5.24 crore mobile customers.

Badiul Alam, a retailer in front of Dhaka Commerce College at Mirpur, said his sales average Tk 5,000 a day, while it may drop to Tk 3,000 when the college remains closed.

Many retailers let people make calls at Tk 2 a minute, which was Tk 10 when the mobile operators first appeared.

"Now we earn Tk 1 for every minute of a call, which was less than Tk 0.5 earlier, when the call rate was Tk 3 or Tk 4," Alam said.

Shiplu said Eid brings him business. "I transferred credit worth Tk 48,000 on the first day of Eid and the day earlier."

"But sales from these two days do not depict the whole scenario. I can hardly maintain my household with this income."

A reduced rate of commission has cut into retailers' profit. Besides, the government imposed Tk 900 in tax on every SIM in fiscal 2005-06 and later reduced it to Tk 800. Operators claim tax is the reason for reduced commission.

GP began Flexiload with 3.5 percent commission for retailers, which is now 2.75 percent. The same is with Banglalink, Warid and AKTEL. Teletalk and Citycell fixed the rate at 3 percent and 3.15 percent.

Bangladesh Mobile Phone Load Businessmen Association recommended raising the commission up to 10 percent.

Shiplu said there should be dedicated retailer shops and not everyone should get permission to be a retailer; or there should be separate rates of commission for part timers and regular traders.

shoyeb@thedailystar.net

COLUMN

MONZUR HOSSAIN

Determinants of interest rate spread

A key indicator of financial performance and efficiency is the spread between lending and deposit rates. If this spread is large, it works as an impediment to the expansion and development of financial intermediation.

This is because it discourages potential savers due to low returns on deposits and thus limits financing for potential borrowers. This has the economy-wide effect of reducing feasible investment opportunities and thus limiting future growth potential.

From this perspective, the extent of interest rate spread (IRS) has been a widely discussed topic in Bangladesh and to some extent, debatable. On the one hand, investors as well as Bangladesh Bank are claiming that the IRS here is high, and not acceptable; on the other hand, bankers are claiming that the current level of IRS is reasonable considering the profit margin of the banks.

IRS, defined as the difference between banks' interest earnings on its assets and interest paid on its liability is generally perceived to be high in Bangladesh. It is estimated to be between 5-8 percent, depending on alternative measures used. The IRS in private commercial banks (PCBs) was estimated to be around 5 percent after 2004, but it is higher than 5 percent for other banks. IRS is found to be lowest for new generation PCBs (established after 1999). The central bank statistics show that it is the highest (8.8 percent) for the foreign commercial banks (FCBs).

In this backdrop, it is of interest to know: First, is the IRS really too high in Bangladesh compared to other developing and neighboring countries? If so, what are the reasons? Second, if the IRS is not too high, why it is problematic? Although the IRS here remains very close to developing country standard, it remains well above the developed country standard, which is around 3-4 percent. However, remaining at the level of developing country standard does not indicate that we should not lower the level of IRS. Rather, it is important to know how this level of IRS is creating problem for the economy as well as for the banking sector.

A recently completed BIDS study conducted by the author finds that although the IRS in Bangladesh is not very high compared to other developing countries, some of its characteristics are lamentable that deserve some attention from policymakers. It is observed that change in the IRS is

caused by change in the deposit rate, not the lending rate (long-term perspective). After 2000, any shock to the lending rate seemed to be translated quickly to deposit rates. This observation is commendable because it indicates that the current policy of interest rate cap on the lending rates would not help reduce the IRS in the long run, rather it might work in the short run. This has already become clearer as the banks are reducing their deposit rates with lending interest cap at 13 percent to keep the spread almost the same as was before the cap-regime.

In addition, the amount of loans and deposits is not found to be responsive to their respective interest rates, indicating that banking sector in Bangladesh is not competitive in a sense that they are not competing among themselves for deposit mobilisation as well as for exploring lending opportunities.

that there is a mindset in the management of the banks to show high profitability at any cost, which can be termed as agency-cost problem. This is also indicative of weaknesses of corporate governance of the banking sector. Two prominent issues that have been emerged in the BIDS study as the cause of high IRS are: high overhead cost and high non-performing loan (NPL) ratio. Both the factors indicate inefficiency of the management for which the cost has to borne by the borrowers as well as depositors.

It is widely said that banks are spending huge amount of money on their operation, costly branch decoration, remuneration of employees, souvenir and gifts etc. as well as extended branches and unnecessary manpower, particularly in case of state-owned banks. It is possible to reduce the IRS to some extent by bringing efficiency in the operation and service of the banks.

practices among the clients.

These issues indicate that the banking sector in Bangladesh is not competitive, rather monopolistic competition prevails in the system.

Corporate income tax has not been found important for high IRS in Bangladesh as opposed to the claim of bankers. Liquidity reserve ratio (LRR) could be an important policy tool for Bangladesh Bank as it has important negative relationship with the IRS. If LRR is increased, banks will be forced to increase deposit rate for deposit mobilisation.

To summarise, although the IRS is not very high in Bangladesh, there is a scope of reducing it at a reasonable level. It is expected that a 4-4.5 percent spread is reasonable for Bangladesh considering size of its economy and profit margin of the banks. Based on these findings, some recommendations can be made in order to reduce the level of IRS in Bangladesh.

- Increasing operating efficiency in the banking sector through reducing overhead costs and the proportion of NPL could contribute in reducing IRS. Bangladesh Bank needs to monitor banks' operating costs and NPL very closely. Non-interest income of banks must be rationalised so that banks cannot rely on them heavily. Strengthening Bangladesh Bank's supervising capacity will also be necessary.
- Interest rate ceiling at a reasonable level could help reduce IRS in the short-run, but not in the long run. Moreover, since any ceiling on lending rate affects deposit rate, it is better to place ceiling on the IRS as a short-term solution.
- Efficiency in operation and service of the state banks must be increased in order to make the banking sector more competitive. Foreign banks need to be brought under strict scrutiny, as their IRS and service charge are not indicating competitiveness in the banking sector. Their non-interest income is substantially high, which needs to be reduced.
- Strengthening of capital market could be an alternative mode of mediating private savings, and in this way it is possible to make the sector more competitive in the medium-to-longrun.

The market concentration on loans indicates that before 1999 market power was in the hands of state-run banks, which has been gradually decreased by the entry of new private banks

In 1999, as a part of financial liberalisation, Bangladesh Bank left it to the banking sector to set the interest rates. It was expected that money market will function properly and competition will increase in the sector, which will work for the betterment of the economy.

Entry of foreign banks also encouraged for transferring technology in the banking sector as well as increasing competition. Although foreign banks help in transferring sophisticated banking products and technology, their IRS (more than 8 percent) and commission and fees are found to be the highest, which indicate that they are not working in favour of increased competition in the banking sector. Therefore, financial liberalisation in Bangladesh has not worked in favour of increased competition in the banking sector.

The IRS is found to be persistently high in Bangladesh. This, in other words, indicates

Another important concern for Bangladeshi banks is that they are not competitive. This concern is tested by looking at market share of deposits and loans. Market share of deposits (MSD) is not found to be an important factor for the IRS. Therefore, more deposit mobilisation through reduction of NSD certificate rate, as argued by some authors, may not be helpful in reducing the IRS. The market concentration on loans indicates that before 1999 market power was in the hands of state-run banks, which has been gradually decreased by the entry of new private banks. Interestingly, it is observed that market power has now shifted to the hands of the older and bigger private banks, which was established on or before 1999. Since these older private banks are now playing strong role in setting interest rates, it could be important to scrutinise the client base of these banks as to whether there is any discriminatory interest rate

Dr Monzur Hossain is a research fellow of the Bangladesh Institute of Development Studies. He can be reached at: monzur@bids.org.bd