

DUTY-DODGING IN BANGLADESH

Counterfeit counterfoils

THE ECONOMIST

In the five years to 2005 Bangladesh had the unfortunate distinction of languishing at the very bottom of Transparency International's corruption perceptions index. It has fared little better since. When Jim Yong Kim, the World Bank's president, forcefully stated his commitment to curb crony capitalism under his watch earlier this year, he used Bangladesh as an example of how the bank would punish "insufficient response by the authorities to the evidence of corruption". The bank had just cancelled funding for South Asia's largest donor-funded infrastructure project, a \$3 billion bridge across the Padma river, citing alleged corruption by Bangladeshi officials.

Yet it is surprising how little attention donors pay to the biggest form of graft in Bangladesh, which, if fixed, would leave the government with enough cash to double health spending and to pay for an infrastructure project as large as the Padma bridge every two years.

The corruption in question is fraudulent trade invoicing. Take exports of spectacles from China to Bangladesh, for example. The Bangladeshi importer asks the Chinese exporter to invoice for \$1 per pair of spectacles, though the price agreed is \$10. That allows him to pay only a fraction of the import taxes he owes the state. The Chinese exporter agrees to under-

invoice because it makes his product hyper-competitive in Bangladesh (by undercutting those who are not prepared to falsify their invoices); and to avoid foreign exchange regulations, which require him to turn over his proceeds on the spectacles to China's central bank.

In practical terms, the importer pays \$1 through official channels (using a letter of credit) and settles the remaining \$9 by using the hundi system, an informal money transfer set-up. He hands that sum to a hundi dealer in Bangladesh. Another dealer in Dubai, say, uses a money transfer agent to balance accounts. He sends \$9 in hard currency to the importer's offshore account, out of which he then pays the Chinese exporter. No money crosses Bangladesh's borders and the currency movements recorded show no link to the original trade transaction.

The sums of money involved are big. Forrest Cookson, an American economist and expert on Bangladesh's economy, reckons that under-invoicing of imports alone results in lost revenue of at least 1 percent of GDP annually. If the practice were stamped out, he says, the country would gain 1.5 percentage points in its tax to GDP ratio (which remains one of the lowest in the world, despite a fourfold explosion in trade in the last decade). Bangladesh also ends up paying a lot more for its imports, because importers who save on duty can afford to trade with more expensive suppliers (thus squander-

ing an estimated \$3 billion in foreign exchange annually). The problem has worsened following a surge in trade with China, which has risen sevenfold between 2002 and 2012, to \$8.5 billion. Under-invoicing on Chinese imports alone could be as high as \$3 billion.

Part of the reason for the fraud is Bangladesh's protectionist trading regime, which is among the toughest in Asia. Customs officials report the worst cases of under-invoicing on goods with high duties—for example, costume jewellery (often invoiced at just 5 percent of its real value). But tax evasion is made easy by lax and outdated custom controls. This fraud would be cheaper to fix than reforming the institutions that Bangladeshis commonly perceive to be the most corrupt: the police, the judiciary and political parties. Some efforts are already being made. This summer the government launched a new software system in three of its ports (Benapole, Chittagong and Dhaka), which allows customs officials to check dodgy-sounding values by looking up current market prices.

But full automation is still a long way off. And on June 30 Bangladesh's mandatory Preshipment Inspection Programme, under which the quality, quantity and price of exports were verified by an independent firm before entering Bangladesh, was scrapped. The system had helped contain the worst excesses of fraudulent trade invoicing. Losses to the exchequer are likely to keep rising.

Regulator green-lights another textile IPO

STAR BUSINESS REPORT

The Bangladesh Securities and Exchange Commission yesterday gave the green light to Mozaffar Hossain Spinning Mills, a textile company, to raise Tk27.5 crore from public.

Using the fixed price method, the company is set to float 2.75 crore ordinary shares of Tk 10 each. Alfa Capital Management and AFC Capital would manage the initial public offering, the proceedings from which would be used to repay Mozaffar Hossain Spinning Mills' existing bank loans.

The company's earnings per share, as of June 2012, stood at Tk 2.78 and net asset value per share at Tk 19.56.

The approval came at a meeting presided over by BSEC Chairman Khairul Hossain, the commission said in a statement.

There are 30 textile companies listed on the stockmarket.



MEGHNA BANK

Kaiser A Chowdhury, managing director of Meghna Bank; Kazi Saifuddin Munir, managing director IT Consultants Ltd, and Shezan Shams, managing director of E-Cash, attend the signing of a deal for Meghna Bank Fast Cash prepaid card and mobile banking services, at the bank's head office in Dhaka on Monday.

ACI chairman chosen as head of national seed body

STAR BUSINESS DESK

M Anis Ud Dowla, chairman of ACI Ltd, has recently been elected as the president of Bangladesh Seed Association, ACI said in a statement yesterday.

A 15-member executive committee was also elected with Syed AKM Asadul Amin, owner of Premium Seed Company, as the general secretary.

Bangladesh Seed Association is the apex body of seed industry in the country.



BASIS makes donations to 40 Rana Plaza victims

STAR BUSINESS REPORT

Bangladesh Association of Software and Information Services (BASIS) yesterday distributed Tk 8 lakh among 40 victims of the Rana Plaza tragedy in an effort to improve their lives.

"Although it is a small contribution, it will encourage other corporate firms to come forward to assist the victims and their families," said AKM Fahim Mashroor, president of BASIS, who handed over the cheques of Tk 20,000 each to the victims.

Two rescuers were also awarded at the event for their contribution to saving the victims of the building collapse. The association is set to remunerate 10 more victims of Rana Plaza.

Govt eases production rules for oil companies

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In the existing PSC-2012 model, designed for upcoming tender for deep-sea blocks, the price for 1,000 cubic feet of gas was fixed at \$5.5.

The gas prices will also be increased every year by 2 percent, and the oil companies will be allowed to sell half of their share of the production to third parties without requiring Petrobangla's refusal to buy it.

Under the existing PSC-2012, the oil companies are allowed to sell all gas in their share to any company after the state-run oil company refuses to buy the gas.

The government also exempted international oil companies from paying corporate tax. Now Petrobangla will pay the taxes on behalf of the contractors.

The highest cost recovery in deep-sea blocks has been reset at 70 percent, which was at 55 percent in the current model.

The cabinet committee meeting, however, sent back a proposal to award the work to develop the Kaliakoir high-tech park in Gazipur to the winning bidder after a local partner of the bidder turned out to be a loan defaulter.

Muhtith said the law ministry also raised some objections about the proposal. A decision will be taken later about consulting the ministry.

The central bank has informed the ICT ministry that a member of the Malaysia-based KTPC Consortium—Khansons Holdings Ltd—is not a loan defaulter as an institution.

But Khansons Textiles, in which two directors of Khansons Holdings have interests, was a defaulter, according to the ministry.

Motorcycle market heats up as new players step in

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The assemblers said they want to turn their factories into full-fledged manufacturing units. "But we are failing to do so due to unfavorable policy," Rahman said.

According to customs rules, an assembler will be termed a manufacturer if its value addition is at least 30 percent and if it can produce 10 percent of the selected parts such as frame, main stand, side stand, real swing arm, handle bar, tension rod and engine clamp, locally.

A manufacturing unit will also have to have power coating plant and other facilities for injection molding, dye casting, salt spray testing, pipe bending, and hydraulic press, according to a notification of the National Board of Revenue. But the companies should be given freedom on what they would manufacture, otherwise the industry would not flourish, said Rahman.

Biplop Kumar Roy, business head for two-wheeler at TVS Auto Bangladesh, also echoed the same. "We have a plan to set up a manufacturing unit. But before that, we want to see a shift in policy."

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Shahjalal airport to get new radars

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Of the total project fund, Tk 210 crore will be required for supply, installation and commissioning of the equipment, Tk 45 crore for maintenance and spare parts for the next 10 years, and Tk 75 crore for technical upgrades and overhauling after 10 years.

Most of these works were included in the project taken back in 2008 with funds that were supposed to be provided by Danish International Development Agency (DANIDA) as grant, but were left out from the original project due to fund shortages.



HSBC

Md Mahub-ur-Rahman, corporate banking head of HSBC Bangladesh, and Mahubur Rahman, president of ICC Bangladesh, attend the inaugural session of a trade workshop on globally accredited trade standards--UCP 600 and Incoterms 2010--organised for the clients of the bank recently.

HSBC, ICCB run trade workshops for clients

STAR BUSINESS DESK

HSBC in collaboration with the International Chamber of Commerce, Bangladesh (ICCB) has recently organised trade workshops on globally accredited trade standards--UCP 600 and Incoterms 2010--in Dhaka and Chittagong for its clients.

Vincent O'Brien, chair of the ICC Banking Commission Executive Committee, conducted the workshops, which were arranged by a bank for the first time in Bangladesh, the bank said in a statement yesterday.

The Uniform Customs and Practice for Documentary Credits (UCP) is a set of rules on the issuance and use of letters of credit. The UCP is utilised by bankers and commercial parties in more than 175 countries in trade finance.

The Incoterms rules or International Commercial Terms are a series of pre-defined commercial terms that are widely used in international commercial transactions or procurement processes. Both of the global trade standards are published and standardised by the ICC, according to the statement.

"As the leading international trade bank, HSBC believes in facilitating knowledge on international trade for our trade partners and valued customers," said Md Mahub-ur-Rahman, corporate banking head of HSBC Bangladesh.

"It has always been our endeavour to impart training and make available latest know-how to the users involved in international trade finance, so that there is clearer understanding and application of the provisions of L/Cs in trade transactions", said Mahubur Rahman, president of ICC Bangladesh.

Executive Director of Bangladesh Bank Md Ahsan Ullah, President of Chittagong Chamber of Commerce Mahubul Alam, ICC Bangladesh Secretary General Ataur Rahman attended the inaugural session.



ROBI

Pradeep Shrivastava, chief market officer of Robi, and Mir Zaki Azam Chowdhury, director for marketing at General Pharmaceuticals, exchange documents of a deal to provide exclusive corporate mobile phone services to the pharmaceutical firm, at a programme in Dhaka yesterday.

NBL Securities fined Tk 10 lakh for violating loan rules

STAR BUSINESS REPORT

Bangladesh Securities and Exchange Commission (BSEC) yesterday fined NBL Securities Tk 10 lakh on charges of providing more loans than the permitted limit to a client to buy shares.

The stockmarket regulator imposed the financial penalty on the brokerage subsidiary of National Bank at a meeting chaired by the commission's chief M Khairul Hossain, the commission said in a statement.

NBL Securities provided the excess shares credit to Roksana Akter, wife of Anwarul Kabir Bhuiyan, a BSEC executive director, violating the margin loan rules.

Bhuiyan was sent to forced retirement in July for his involvement in the 2011 stockmarket scam. He was found involved in share business through his wife's BO accounts and made Tk 80 lakh in a windfall profit violating rules and misusing power.

Earlier, the stockmarket watchdog in a probe found that the stockbroker gave Tk

3.2 crore as loans to the BO (beneficiary owner) account of Roksana against a deposit of Tk 3 lakh.

But when the loan was sanctioned, the margin ratio was within 1:2, which means a client can borrow a maximum of Tk 6 lakh against a deposit of Tk 3 lakh.

The BSEC conducted the investigation against NBL Securities after a government probe committee on the stockmarket scam recommended the regulator to carry out a detail inquiry against the brokerage house.

Dhaka stocks end in black

STAR BUSINESS REPORT

Stocks returned to the black yesterday, powered by investors' buying spree of large cap companies.

After oscillating between positive and negative territories several times throughout the trading session, DSEX, the benchmark general index of Dhaka Stock Exchange, closed the day at 4,127.61 points, after surging 27.54 points or 0.66 percent.

The market upturn was backed by investors' focus on strong and lucrative scrips, IDLC Investments said in its market analysis.

Additionally, investors' focus on most of the large-cap scrips acted as a core catalyst behind the positive trend.

Conversely, investors were materialising quick return amid their meticulous trading policy as the overall market was showing volatility for the last few sessions.

Investors' participation continued to

remain sluggish with average turnover of last three sessions coming down to Tk 492 crore, it added.

Turnover declined 4.62 percent to Tk 456 crore, compared to the previous day.

Investors were seen executing 0.98 lakh trades with 7.32 crore shares and mutual fund units on the Dhaka bourse.

Of the 287 issues that traded on the DSE floor, 152 advanced, 100 declined and 35 remained unchanged.

Among the major sectors, foods gained 4.30 percent, telecoms 2.71 percent and engineering 1.93 percent. However, life insurance declined 0.70 percent and bank 0.06 percent.

Grameenphone continued to feature in the most traded stocks chart with 21.59 lakh worth Tk 46.97 crore changing hands.

Hakkani Pulp and Paper was the biggest gainer of the day, as it gained 10 percent, while Reliance One was the worst loser, slumping by 10.41 percent.

Some Robi employees protest termination

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Mahmudur Rahman, executive vice-president of Robi, said the termination has no relationship with the intent to form trade union as the company was oblivious of the development.

"The company can transfer any of its employees to BICL as it is a fully-owned subsidiary of Robi," he added.

As things stand, 25 of the 70 protesting employees joined BICL yesterday, with 15 more due to make the switch.



LOOSEMONKIES

Nadimur Rahman, chief executive of Loosemonkies, attends the launch of the job forum at a hotel in Bangladesh recently. Aly Zaker, chairman of Asiatic 3Sixty, was also present.



PHOENIX FINANCE & INVESTMENTS

SM Intekhab Alam, managing director of Phoenix Finance and Investments Ltd, and Adam Tamizi Haque, managing director of Haque Brothers (Industries) Ltd, exchange documents of an investment agreement of Tk 20 crore, at a programme recently.