

Bangladesh uniquely positioned to benefit from regional connectivity

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ANNETTE Dixon (AD), the World Bank's vice-president for South Asia, has recently visited Bangladesh in preparation of the multilateral lender's Country Partnership Framework for fiscal 2016-20. The Daily Star (TDS) caught up with her for an interview during her visit.

TDS: How will the recent initiatives aimed at sub-regional connectivity involving India, Nepal, Bhutan and Bangladesh benefit Bangladesh's economy when they are implemented?

AD: Let's put this within the broader context: sub-regional connectivity involves initiatives not only in terms of infrastructure and trade facilitation but also trade policy and foreign direct investment.

Bangladesh is uniquely positioned to take advantage of its location in the Eastern sub-region of South Asia. It will be a centre point of different initiatives that seek to connect Bangladesh, Bhutan, India and Nepal (BBIN) with the Asean and other East Asian countries.

With deeper trade, investment and connectivity linkages within the sub-region, Bangladesh can benefit from new markets, new import sources of high-quality and better priced products, increasing opportunities for transport and logistics services.

Increased trade can contribute directly to investment and job creation, in manufacturing, agriculture as well as services.

In promoting increased trade, one should be aware that there will be winners as well as losers from greater transit and trade integration, as is always the case in any reform programme.

Initiatives to help businesses as well as affected workers may be needed, even as the country as a whole stands to gain significantly from greater sub-regional cooperation.

TDS: What challenges might these sub-regional initiatives face in case of execution?

AD: There are three sets of challenges: capacity, coordination, and policy.

Significant implementation capacity as well as knowledge support will be required for all participating countries.

There will be coordination challenges both



Annette Dixon

internally within countries and regionally across borders.

As facilitating transport and trade connectivity is a multi-sector, multi-agency effort, all the relevant ministries, departments and agencies within a country will need to coordinate seamlessly.

Private sector stakeholders will also need to be engaged. Similarly, at the regional level, the BBIN countries will need to coordinate both at the political level as well as at the technical level.

The recent agreements and protocols to improve regional connectivity will require changes in national policies and legal frameworks.

Drafting the appropriate policies and getting adequate stakeholder support can take time, and the governments can use knowledge and capacity support, including understanding the good practices from around the world to replicate.

Also, new initiatives are needed to harmonise trade policies and quality standards and attract foreign investment including from

within the sub-region.

TDS: What is the World Bank's plan for providing financial and technical support to help implement these initiatives?

AD: The WB has projects under implementation as well as in the pipeline in support of regional connectivity in all four countries.

In Bangladesh, the World Bank is preparing a connectivity project on inland waterways as well as a regional connectivity project that will support road and multi-modal connectivity efforts.

TDS: Fixing transit fees for connectivity is a crucial issue. What is the global practice in this regard? What should the four countries do in fixing the transit fee?

AD: There are well-known global conventions under the World Trade Organisation. The General Agreement on Tariffs and Trade (GATT) Article V provides principles for regional transit. Many regions in the world have successful transit arrangements.

India may consider cutting stake in state-run banks

REUTERS

The Indian government may consider reducing its stake in state-run lenders to 52 percent, Finance Minister Arun Jaitley said on Monday.

The government would also consider other issues including problems tied to distressed state power providers, Jaitley said while speaking at a banking conference.

His comments come amid continued concerns about the levels of distressed debt in the banking sector. The government was getting ready to unveil a draft for a bankruptcy code at the end of this month or in early October, Jaitley added.

State-owned lenders have struggled to recover much of the bad debt piling up on their balance sheets using available mechanisms because of the lack of a bankruptcy code.

Facebook, eyeing TV dollars, rolls out new ad products

REUTERS, San Francisco

Facebook Inc introduced a slate of new advertising products on Sunday, most of which are aimed at luring television advertisers onto the 1.5-billion user social network.

The advertising options, most of which will also be available on Facebook-owned Instagram, are designed to take advantage of the social network's strengths on mobile devices.

It has the world's most popular smartphone app and generates more than three-quarters of its \$10 billion-plus in annual ad revenue on phones.

Facebook is trying to convince advertisers, especially those who use video, that their dollars will be better spent on mobile platforms rather than on TV as users, especially millennials, spend more time on their phones than watching television.

The rollout of the new products come ahead of New York City's 12th Advertising Week, which runs from Monday to Friday and gathers the world's largest advertisers and companies. Facebook also announced on Sunday that it has 2.5 million active advertisers in total, up from 2 million in February.

Digital video advertising spending is growing rapidly, projected to increase 13 percent to nearly \$15 billion by 2019, according to eMarketer. Television ad spending, by comparison, is expected to grow 2 percent in the same time period to \$78 billion.

"Facebook is listening to the ad community and giving them what they are looking for," said Debra Aho Williamson, social media marketing analyst with eMarketer. "Does Facebook want video ad dollars? Yes."

Zero applicants for Japan plan to promote women at work

AFP, Tokyo

Not one Japanese company applied for a subsidy programme aimed at promoting more women to senior jobs, an official said Monday, an embarrassing blow for Tokyo's push to boost the economy with female workers.

Hundreds of firms had been expected to apply for cash rewards in exchange for reaching targets to place women in high-ranking jobs and train female workers for senior positions.

Under the plan launched last year, successful firms would each receive up to 300,000 yen (\$2,500) in compensation.

But a 120 million yen budget earmarked for 500 expected applicants went unused, said a spokeswoman for the health ministry which administered the programme.

The spokeswoman blamed the strict conditions for qualifying for the scheme, admitting it was "not a good programme".

A less stringent offer would begin from October with the payout doubled in some cases, she said.

The misstep comes as Prime Minister Shinzo Abe vowed to push initiatives for women's empowerment at a United Nations meeting in New York Sunday.

Last month Japan enacted a law forcing larger firms to disclose their targets for hiring female employees and promoting them to senior positions.

Indonesia prays for Islamic banking boom

AFP, Jakarta

INDONESIAN teacher Nina Ramadhaniah hopes for "blessings from Allah" by opening a shariah bank account -- the sort of pious customer the world's most-populous Muslim-majority country is praying for as it launches an Islamic finance drive.

Indonesia, Southeast Asia's biggest economy, has a Muslim population of around 225 million but this huge number of faithful has not translated into success for sharia banks, institutions required to do business in line with Islamic principles.

Now regulators have launched a plan aimed at growing the sector, which currently accounts for less than five percent of banking assets, compared to a quarter in neighbouring, more developed Muslim-majority Malaysia and around half in Saudi Arabia.

Authorities believe it is a good moment, with many Indonesians getting wealthier after years of strong economic growth and an increasing trend towards piety across broad sections of society.

Many of those without bank accounts, estimated at about 40 percent of the population, are soon expected to open one.

"The situation is an opportunity for the Islamic banking business to get bigger," said Nasirwan Ilyas, a senior official from the Islamic banking division of the Financial Services Authority (OJK).

The OJK is spearheading the drive, and unveiled a five-year roadmap earlier this year that included plans to educate the public about sharia lenders and the establishment of an Islamic finance committee to better manage the sector.

Key features of sharia banking include the prohibition of interest on loans or customer deposits, and a ban on investing in "non-Islamic" businesses, such as those involving pork or alcohol.

For teacher Ramadhaniah, who



AFP/FILE

An employee of BRI Syariah bank manages bundle of Indonesian Rupiah bank notes in Jakarta.

has an account with Indonesia's biggest Islamic lender, Bank Syariah Mandiri, the ban on interest is a key attraction.

"Charging interest is haram (against Islam), ill-gotten gains that will not bring me any blessings from Allah," the 44-year-old told AFP. "I don't want to live in sin."

Shariah accounts often work on a "profit-and-loss sharing" model, meaning customers get a windfall when the bank does well but can lose out when it does badly.

There are obvious disadvantages. Shariah lenders generally offer lower returns on investments and their modest size often means they provide fewer services than larger, conventional peers -- many shops are not equipped to accept their debit cards.

Nevertheless, Islamic banks have proven popular in recent years, with the sector expanding on average more than 40 percent a year between 2008 and 2012, according to the OJK.

The growth came after laws were changed to make it easier to establish an Islamic bank, and

there are now a plethora of standalone sharia lenders, Islamic banking units attached to conventional banks, and smaller Islamic financial institutions in the countryside.

Growth in the sector has lost steam due to a broader slowdown in the economy, which is expanding at six-year lows -- giving authorities another reason to launch their drive.

Central to the overhaul is a plan to set up a National Islamic Finance Committee this year, to oversee the sector by bringing together representatives from different government agencies and act as a contact point for potential foreign investors.

Currently responsibility for the sector is spread around different bodies, such as the OJK, the central bank and the finance ministry, according to the OJK's Ilyas.

It is modelled after similar bodies in other countries, such as the International Islamic Finance Centre in Malaysia, where the sector is already far more developed as the government started supporting it some years ago.

In addition to the OJK roadmap, the government has announced plans to merge the Islamic banking subsidiaries of four state-owned banks to create an Islamic mega-bank, which should be able to provide better services than the current Islamic lenders.

While observers have broadly welcomed the plans, they concede that many difficulties remain.

Khalid Howladar, Moody's global head of Islamic finance, said it would be "quite a challenge" to grow the sector to a substantial level.

"The market is growing faster than conventional but from a very low base," he said, adding Islamic banks in Indonesia did not offer "substantive competition" to their non-sharia peers.

But for Ramadhaniah and a growing army of devout Indonesians with new-found spending power, Islamic banks remain the only choice.

"I really don't care that I'm not earning anything or getting lower returns on my investments," she said. "I can live in peace."

Swiss authorities probe seven banks for price fixing in metals market

AFP, Geneva

SWISS competition authorities said Monday they were investigating UBS, HSBC, Deutsche Bank and other major banks for suspected price fixing in the trade of precious metals like gold and silver.

The Swiss Competition Commission (COMCO) said it was probing whether seven banks had colluded to manipulate prices in the precious metals market.

The watchdog said in a statement that it had "opened an investigation against two Swiss banks, UBS and Julius Baer, as well as against the foreign financial institutions Deutsche Bank, HSBC, Barclays, Morgan Stanley and Mitsui."

COMCO, which opened a preliminary investigation in February, said it now had indications that the banks had "possibly concluded illegal competition defying deals" in the trade of the precious metals gold, silver, platinum and palladium.

"We think they can have manipulated the price of these precious metals," COMCO deputy chief Patric Ducrey told AFP. The competition authority said it especially suspected the banks had fixed the prices of bid/ask spreads within the market.

Ducrey said the banks had all been informed of the ongoing probe, and that the investigation would likely conclude in 2017.

It is not the first time the role of banks in determining the price of precious metals has been questioned.

In August, the European Commission said it was "currently investigating alleged anti-competitive behaviour in precious metals spot trading in the EEA" (European Economic Area), but provided no further details.

And in February, the US Justice Department reportedly opened its own investigation into possible manipulation of precious metals markets by 10 major international banks: HSBC, Bank of Nova Scotia, Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Societe Generale, Standard Bank and UBS.

Goldman Sachs, HSBC, Standard Bank of South Africa and the German chemical group BASF have also been under investigation since last November over a complaint alleging rigging of the prices of platinum and palladium.

Julius Baer, which was not part of the

US investigation, told AFP Monday it was aware of the Swiss probe.

"We will constructively cooperate with this investigation," said spokesman Jan Vonder Muehl.

UBS, which did not immediately return requests for comment Monday, said in May it had won immunity from criminal fraud charges in the US probe, after agreeing to provide the Justice Department with information about precious metal transactions.

In its second quarter report, Switzerland's largest bank meanwhile said a number of authorities around the world were reportedly "investigating potential manipulation of precious metals prices."

Precious metals have increasingly come under scrutiny after the discovery that other financial benchmarks have been rigged.

Some of the banks under investigation Monday were already hit by massive fines earlier this year after pleading guilty to US charges of conspiring to rig Libor rates, the global commercial interest rate benchmark used to peg millions of rate-sensitive contracts and loans around the world.

That rate is estimated to underpin some \$500 trillion worth of contracts.

The price-setting mechanism to determine benchmark prices for precious metals has also been under reform, amid calls for greater transparency.

Panels of banks have until recently agreed on the reference prices for the precious metals.

But last year, exchange giant CME Group and financial information giant Thomson Reuters began providing an electronic system for setting benchmark silver prices, and the London Metal Exchange (LME) did the same for platinum and palladium.

There are also moves underway to reform the century-old method of gold price "fixing," since the current global benchmark, London's Gold Fix, has already been tainted by a rigging scandal and attacked by critics as old-fashioned.

A new method for setting the gold benchmark price is expected to take effect next March.

Following the news, the two Swiss banks on COMCO's list, UBS and Julius Baer, saw their share prices slump 1.16 and 1.08 percent respectively in late morning trading, as the Swiss stock exchange's main SMI index fell just 0.24 percent.