Cows and elephants

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As far as I can see, the mobile financial services operators (who I call cows) are doing a fantastic job and executing a billion transactions a year. The growth of MFS providers in the first five years has been much more spectacular than the growth of mobile network operators (whom I call elephants) during their first five years.

IT is impressive to see that there are more than 30 million subscribers of mobile financial services (MFS) in Bangladesh executing more than 3.5 million transactions per day.

I have to congratulate Bangladesh Bank for effectively guiding the ongoing evolution of the MFS industry, built by young Bangladeshi men and women, although the investment capital has mostly come from abroad. In fact, MFS industry has set a useful precedence in Bangladesh which goes beyond MFS. Young people of the country are building high-tech companies in the country, empowered by foreign and local investment. We all want to see more of this.

Bangladesh Bank has effectively nurtured a nascent industry and allowed it to grow to serve millions of beneficiaries every day. However, I have been writing for some time expressing my concerns about the way Mobile Network Operators (MNOs) are posturing to enter into this industry. This stance goes way beyond their fundamental role of providing connectivity. In my mind, MNOs should provide connectivity to MFS and other industries, just as MNOs use electrical power supplied by the utility companies. Let me start with analogy to describe my concerns.

Imagine a country deciding to produce milk for its children. It releases 20 cows in the country hoping that they all will produce milk. One of the cows does an excellent job and produces 15 litres of milk a day, another one five litres a day, and two others, one litre a day each. Seeing this new domestic production of milk and the demand that satisfies the need of the country's children, various international experts start arguing that there should be more milk production in the country. However, there are several elephants in the country that also produce milk to feed their calves. The elephants start to claim loudly that cows should not be exclusively allowed to produce milk; there should be competition for the production of milk. Some international advisors, who appreciate the importance of milk, start singing that the elephants should be allowed as well. The market fundamentalists—with blind faith in competition no matter how uneven the playing field—are joining the choir, singing loudly that elephants should compete with the cows.

Luckily, Bangladesh Bank has prudently fenced off the elephants so far and letting the "cows" do their job. So much for cows and elephants.

As far as I can see, the MFS operators (who I call cows) are doing a fantastic job and executing a billion transactions a year, already. The growth of MFS providers in the first five years has been much more spectacular than the growth of MNOs (whom I call elephants) during their first five years. Bangladesh now has the world's largest market for MFS in many ways by providing the cheapest, and most intensively available throughout the country.

The reason MNOs are comparable to elephants is that they are much larger than any other business in Bangladesh; they are certainly much larger than the MFS operators in Bangladesh. In addition to their size, they are also loud. They started to campaign to get into MFS for a while now. First, they made the argument that they can reach millions of people quickly. However, with the success of MFS in Bangladesh which is reaching millions of poor people anyhow, MNOs are now alleging that one MFS provider has significant market share. In reality, there are 27 licences given to banks to introduce MFS. In a level playing field, which Bangladesh Bank has managed to create, network-effects take place according to power laws; some become much larger than others because successful networks attract more customers. Success breeds success. This is why eBay, Amazon and Microsoft lead their respective industries. In the long run others learn from what works and emulate the successful operators. However, the MNOs have not looked at the mirror as only four companies (of which two are about to merge, therefore it will be three) have the entire market share in Bangladesh thus them coming to MFS will limit the number of providers drastically.

Moreover, MNOs sometimes may encroach into new territories because they think they can convince developing regulatory institutions to accommodate their desires. For instance, they started with voice communication, but then they have moved onto providing internet connections. Now they wish to get into MFS. The connectivity provided by MNOs—which they should and for which they are paid—gives them an advantage over those that they connect. If these MNOs are allowed to compete with the MFS providers that are much smaller and weaker, MNOs will unfairly outcompete with the MFS providers. Without thinking about what they are actually saying the so-called international advisors have been quiet about the dominant player Safaricom (owning 80 percent of market share) that owns and operates the dominant MFS provider, M-Pesa. Why have they been quiet? The reason is simple. Safaricom is a strong MNO and the same advisors do not talk about this domination because it is too powerful for the advisers to complain about. In Bangladesh, an MFS player may have a lead-market player because of network effect (i.e. genuine merit) not because of piggybacking on a dominant MNO-owner.

In such a scenario, I am reminded of the American saying, "if it ain't broke, don't fix it". The central bank like a good farmer is husbanding the meager resources of the country in a successful way. In fact, in the field of MFS it has become a global role model with its diligent fencing off of the cows and keeping the elephants at bay.

What is needed is more competition among cows. To do this the regulator should start a dialogue of stakeholders to see how more banks can enter the fray and create greater competition. This of course is not "fixing" what is not "broke" but enabling to make it more efficient. That is what will benefit the users and the banking industry.

Fundamentally, the financial industry has to be a regulated industry by its nature. There is a need to protect the users of the financial products from market failures. It will be challenging for a financial regulator to exercise control over an entity which is at present regulated by the telecom regulator. The supervising responsibilities of the two regulators are bound to cause complexities.

Of course, Bangladesh Bank has been a good regulator. It must continue to maintain the fence. If the authorities assure us that the cows will be protected from unfair competition, investments will surely come to back them up, now that the home-grown MFS industry has earned the confidence of Bangladeshi consumers.

The author is the chief executive officer at Bangladesh International Arbitration Centre and a former deputy governor of Bangladesh Bank.

Britain to review airport shop sales as retailers pocket tax savings

REUTERS, *London*

Britain is to review airport retail sales after some businesses were found to be pocketing about half of tax savings meant for passengers, rather than passing on the discount, the government said on Thursday.

Most retailers at British airports, who include WH Smith and Dixons Carphone, ask passengers to show boarding cards when paying for goods, typically citing security as the reason. A newspaper reported in August, however, that some use the information to avoid paying 20 percent value-added tax (VAT) on goods headed outside the European Union.

The report prompted a backlash from consumers, with many refusing to show their boarding cards to retailers.

Announcing the review on Thursday, the government said in a statement that some airport retailers were keeping up to an estimated 50 pence of every pound of potential sales tax savings, instead of passing them on to consumers.

"VAT relief at airports is intended to cut prices for those travellers - not be a windfall gain for shops," British finance minister George Osborne said in the statement.

AFP

Japanese shoppers pick up "lucky bags" containing items worth three times their price tag during a department store sale to celebrate a new year of business in Tokyo yesterday. Lucky bags are sold each year to celebrate the New Year, Japan's biggest holiday of the year.

Oil prices could hit low point in Q1: BP's chief

REUTERS, *London*

THE slump in global oil prices could hit bottom in early 2016 although prices are likely to remain low for the next couple of years, BP Chief Executive Officer Bob Dudley said.

"A low point could be in the first quarter," Dudley said in BBC radio interview broadcast on Saturday.

Brent crude prices fell by 34 percent last year after shedding 48 percent in 2014. The plunge in global oil prices has pushed inflation close to or below zero in many countries, helping consumers but wrong-footing central banks.

BP's CEO Bob Dudley

Dudley said a more natural balance between supply and demand could come back in the third and fourth quarter of this year, after which stock levels could start to wear off.

"Prices are going to stay lower for longer, we have said it and I think we are in this for a couple of years. For sure, there is a boom-and-bust cycle here," Dudley said.

Dudley also said he did not agree with Bank of England Governor Mark Carney's use of the term "stranded assets" to describe oil and gas reserves held by companies but which may prove unviable as the world moves to a low-carbon economy.

Carney used the phrase in a speech in September in which he called on companies to be more open about their "climate change footprint" to avoid abrupt changes in asset prices that could destabilize markets.

"I think the term overstates it quite frankly and I have spoken to the governor about it and I have questioned that term," Dudley said in the interview.

BP shareholders were already aware of the viability of the company's assets which were only counted as reserves if they were economic, he said.

EU-Ukraine trade deal comes into force, angers Moscow

AFP, *Kiev*

UKRAINE'S free-trade deal with the EU comes into effect Friday, coinciding with the start of Moscow's food embargo against Kiev that will force the impoverished former Soviet republic to revisit its economic model.

The free-trade accord is part of the broader EU Association Agreement -- signed at the end of June 2014 -- and stands at the heart of the drastic deterioration of Ukraine's relations with Russia, furious at seeing its Soviet-era satellite turn to the West.

Ukraine, whose market has been traditionally oriented toward Russia, will now have to turn itself toward the European market and abide by its rules.

"The agreement will contribute to the modernisation and diversification of the Ukrainian economy and will create additional incentives for reform," the European Commission said in a statement on Thursday.

Brussels also said the deal would help Ukraine improve its business climate and attract foreign investment, a view shared by Yegor Perelygin, an analyst at UniCredit bank.

The road to Ukraine's adoption of the deal has been peppered with obstacles.

In November 2013, Ukraine's then pro-Kremlin president Viktor Yanukovych rejected the association agreement, triggering pro-European protests that led to his downfall and eventually to the armed conflict in eastern Ukraine, which has left more than 9,000 people dead.

Fearing the deal could see its market flooded with European goods, Russia has taken retaliatory measures, suspending its free-trade agreement with Ukraine and banning the import of Ukrainian food starting on Friday.

Prime Minister Arseny Yatsenyuk has put the cost of Moscow's measures to his country at some $600 million.

President Petro Poroshenko admitted earlier this month that Russia's retaliatory move would cause "damage" to Ukraine's economy but said he was "ready to pay the price" and press on with efforts to join a European Union free-trade zone.

He blasted the embargo in his New Year address, saying Moscow was trying to "economically strangle" Ukraine.

"Moscow closing its market to Ukrainian merchandise, a powerful economic attack, is another part of the war (...) against us," Poroshenko said.

Kiev has vowed to strike back with its own measures and is expected to announce a list of banned Russian products in the near future.

Ukraine mostly exported agricultural products, vegetables, fruit, dairy and sweets to Russia, with the countries' trade ties shrinking by 70 percent compared to 2011, according to Russia's deputy minister of economic development Alexei Likhachev.

"This (the Russian embargo) will of course be a problem for Ukrainian food producers, but let's not forget that many of them have already entirely or partially reoriented their production toward alternative markets: the EU, Africa, Kazakhstan, China, the Middle East," said UniCredit analyst Perelygin.

AFP

A bulldozer crushes boxes of peaches outside Smolensk in August 2015 after Russian officials began a controversial drive to destroy Western food smuggled into the crisis-hit country despite a public outcry.

Paris New Year hotel reservations slump

AFP, *Paris*

Paris hotels, usually crammed with New Year revellers, have seen New Year reservations plunge 30 percent in the wake of the November 13 attacks, the head of the regional hotel union said Thursday.

"Reservations are down 30 to 40 percent this year on previous years," said Evelyne Maes, president of the Umih union for the Ile-de-France region covering the capital.

"Normally, our establishments are full at year end," she told French radio.

Maes said foreign tourists normally flock to the 'City of Light' but the attacks blamed on Islamic extremists which killed 130 people six weeks ago "have made people fearful --- people have perhaps hesitated when it comes to visiting Paris."

She added hoteliers had "also seen last-minute cancellations" and that the fall-off in tourist numbers had hit all kinds of accommodation, including the furnished variety and also the Airbnb home rental web platform.

Hotel reservations plunged in the immediate aftermath of the violence as they did after a series of attacks in January targeting a satirical magazine and a Jewish supermarket that killed 17.

Following those attacks, hotel reservations took three months to return to normal, Maes said.

But she held out hope of a swifter pick-up in activity this time.

"People are starting to come back for the end of the year. Reservations for January... are almost normal."