

Use of LC offers better defense against money laundering

Says a research paper presented at virtual roundtable of BIBM

STAR BUSINESS REPORT

Extensive use of letter of credit and document collection at home offer relatively a better protection than open accounts and cash in advance when it comes to cutting the risk of trade-based money laundering, according to a research paper.

Shah Md Ahsan Habib, a professor of the Bangladesh Institute of Bank Management (BIBM), said it is well-recognised that trade payments and financing techniques used in cross-border trade transactions have implications for trade-based money laundering (TBML).

Using open accounts and cash in advance is relatively risky from the point

of TBML risks, he said in a press release.

Extensive use of LC and document collection in the country offer relatively better protection in the form of extensive control over the transactions by banks and regulators, he said.

He made the comments while presenting a paper at a virtual roundtable on "Safeguarding Trade Transactions and Prevention of Trade-Based Money Laundering: Role of Correspondent Banks."

While presenting a paper, Prof Habib said correspondent banking relationships have greater roles and engagements in these methods.

It is to be remembered that risk-prone correspondent banking relationships not

only destroy the advantage of using these methods but also facilitate illicit fund flows and TBML through correspondent banking channels.

Other members of the research team are Tofayel Ahmed, an assistant professor of the BIBM; Anila Ali, also an assistant professor of the BIBM; Kamal Hossain, additional director of the Bangladesh Financial Intelligence Unit; Md Rokon-Uz-Zaman, a joint director of the BFIU; Brigadier General Md Jahangir Alam of National Defense College of Dhaka; and ATM Nesarul Hoque, a senior vice-president of Mutual Trust Bank.

The paper suggested banks be aware of greater security and compliance

requirements.

Banks must regularly review their correspondent banking relationships, it said, adding that compliance is not only a technical but also an ethical issue.

Ahmed Jamal, chairman of the BIBM executive committee and deputy governor of the Bangladesh Bank, Md Akhtaruzzaman, director-general of the BIBM, Md Ali Hossain Prodhania, supernumerary professor of the BIBM, Syed Mahbubur Rahman, managing director of Mutual Trust Bank, Sazzad Anam, country representative of JP Morgan Chase, and Ashraf Al Mamun, director for research, development and consultancy at the BIBM, and also spoke.

Meghna Bank gets four new directors



Javed Kaiser



Mahamudul Alam



Ishmam Raidah



Aresha Manami

STAR BUSINESS DESK

Four new directors have been elected to the board of Meghna Bank Limited.

They are Ishmam Raidah Rahman, Aresha Manami Shafiq, Javed Kaiser Ally and Md Mahamudul Alam, said a press release.

Raidah Rahman is a director of Gold Bricks Ltd and an associate director of International Rescue Committee. She holds an honour's degree in English and legal studies from Scripps College, Claremont in California.

Manami Shafiq completed her graduation from the University of Toronto, Canada while Kaiser Ally is the managing directors of Aquamarine Limited and Lighthouse Navigation Limited and finance director of Navana Pharmaceuticals Limited and Agro Acres Ltd.

Alam is the deputy managing director of Labib Dyeing Mills Limited. He graduated from the University of Rajshahi.

German industrial output disappoints in April

AFP, Frankfurt

German industrial production edged up in April but remained "subdued", official data showed Wednesday, adding to fears of a longer recession in Europe's largest economy.

Output rose by 0.3 per cent in April, seasonally adjusted figures from federal statistics agency Destatis showed.

But the uptick was smaller than the 0.6-per cent increase analysts surveyed by FactSet had forecast, and follows a decline of 2.1 per cent in March.

Herlan Store opens in Banasree

STAR BUSINESS DESK

Cosmetics brand Herlan launched a "Herlan Store" at Banasree in Dhaka yesterday.

This brand's cosmetics includes primers, foundations, concealers, lipsticks, gel eyeliner, mascaras and nail varnishes. Skincare products and colour cosmetics of brands such as Nior, Siodil, Blaze O' Skin and Lily's are also available in the outlet.

Inaugurating the outlet, actress Bidya Sinha Saha Mim said the products were of international standard and premium quality, according to a press release.

"Authentic products formulated in America... The products are known for their high quality and reliability. Herlan is expected to get a good response in the cosmetics industry," she said.

Abdul Alim Shimul, head of operations of Herlan Store, was present.



Actress Bidya Sinha Saha Mim cuts a ribbon to inaugurate an outlet of American cosmetic brand "Herlan Store" for local customers at Banasree, Rampura in Dhaka yesterday.

PHOTO: HERLAN STORE



Tarique Afzal, managing director of AB Bank, disburses agricultural loans to over 1,500 marginal farmers through smart cards at Sheikh Fazlul Haque Moni Memorial Auditorium, Kotalipara in Gopalganj yesterday. Among others, Nitul Roy, upazila agriculture officer at Kotalipara, and Aynal Hossain Sheikh, general secretary of Kotalipara Upazila Awami League, were present.

PHOTO: AB BANK

Bangladesh's revenue

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Bangladesh's fiscal outcomes have often diverged significantly from budget forecasts, with persistent underspending against targets.

Revised figures for FY23 point to a budget deficit target equivalent to 5.1 per cent of GDP, compared with an original target of 5.5 per cent and Fitch's most recent projection of 5.7 per cent.

"This reflected weaker-than-expected spending on development, but also outperformance on revenue collection," said Fitch Ratings.

These effects more than offset the impact of additional subsidy spending, which rose to 2.2 per cent of GDP against the original budget target of 1.8 per cent amid high global prices for fertilizer, fuel and natural gas.

The government forecasts the deficit to widen marginally to 5.2 per cent of GDP in FY24. This is close to Fitch's current forecast of 5.3 per cent, though its projection was predicated on a significantly wider deficit in FY23.

The official forecasts remain broadly consistent with the projections of the International Monetary Fund under its Extended Credit Facility and the Extended

Fund Facility arrangements, which see the deficit stabilising at around 5 per cent of GDP over the medium term.

Risks to the deficit could increase if real GDP growth falls below the authorities' projection of 7.5 per cent in FY24, which could dampen the projected nominal growth in revenue of 15.5 per cent.

"We expect slightly slower economic growth of 6.5 per cent," Fitch said.

The projection is slightly higher than the 6.4 per cent economic growth forecast by the agency in September last year.

On Tuesday, the ratings agency said consumer price inflation, which was 9.94 per cent in May, is high and still rising, which may point to downside risks.

"If spending growth falls short of policymakers' forecasts, as it has done in the past, this could offset potential revenue underperformance or offer enhanced prospects for narrowing of the fiscal deficit if revenue growth meets or exceeds targets."

The government's medium-term policy approach is anchored by the goal of keeping the primary fiscal deficit, including grants, within

around 3.3 per cent of GDP to keep public debt below 45 per cent of GDP.

When the ratings agency affirmed Bangladesh's rating at 'BB-', with a stable outlook, in September 2022, it said increased confidence in the sovereign's capacity to deliver fiscal consolidation and debt stabilisation over the medium term, for example, through a sustained improvement in the structure of public finances in terms of a higher revenue base and lower contingent liabilities could lead to positive rating action.

In the medium-term macroeconomic policy statement presented with the budget, the government indicated that the Bangladesh Bank will reverse the temporary margin increases imposed on letters of credit for non-essential imports.

"This may signal an easing of external pressures," Fitch said.

External pressures contributed to a decline in official reserve assets from a peak of \$48.1 billion in August 2021 to \$29.9 billion in May 2023.

"In September 2022 we said that a sustained drop in foreign-exchange reserves could lead to negative rating action."

Leather footwear export

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leather and leather products, the second biggest export-earning sector after garments, inched up 0.42 per cent to \$1.12 billion in July-May of 2023. Receipts stood at \$1.11 billion during the same period a year earlier.

Dilip Kajuri, chief financial officer of Apex Footwear Limited, said: "Our business had started to recover from the Covid-19 pandemic. But the war in Ukraine disrupted the rebound."

He said since the European economy has received a huge blow from the global energy crisis stemming from the war, orders continued to decline.

Europe is the biggest market for the leather and footwear sector in Bangladesh.

"Until the economic condition in Europe improves, our exports will not grow," Kajuri said, adding that his company's orders have fallen by 50 per cent.

According to Kajuri, another blow for the manufacturers is coming from the difficulty in opening letters of credit (LCs).

Amid the persisting US dollar crisis, manufacturers are unable to open LCs to import raw materials.

He said banks are delaying processing LCs even if importers give

a 100 per cent margin.

"The delay leads to a delay in production, resulting in the drop in local sales that we observed during Eid-ul-Fitr," Kajuri said.

Nasir Khan, chairman and managing director of Jennys Shoes, one of the top exporters of footwear, says the impact of the economic slowdown in Europe has contributed to the reduction in exports not just for Bangladesh but also for its competitors.

Export orders usually remain higher at this time of the year, but the situation is quite the opposite as European buyers are placing fewer orders.

Amid the lingering cost-of-living crisis, Europeans have cut consumption and the current trend in demand is expected to continue until normally returns to the economy in the bloc, he said.

"So, our exports might remain dull until the global crisis eases."

The latest blow has come from the power disruption the country is witnessing. The power crunch has turned severe as many power plants are either shut or not operating at capacity.

"Because of the lack of uninterrupted power supply, the

production in our factory has declined sharply. As a result, we are not able to deliver export-oriented items on time," Khan said.

He said it is challenging to maintain quality without a reliable power supply. Modern machinery requires a smooth supply of electricity.

The production at Jennys Shoes has declined by at least 30 per cent compared to normal times due to load-shedding, Khan said.

Abul Islam, general manager of SAF Leather, a concern of Akij Group, also blamed the lower orders from European buyers for the dip in exports.

"Owing to the economic slowdown, the export of shoes and leather products from Bangladesh has declined significantly."

He said the leather and footwear sector has fallen into difficulty driven by a rise in the production cost amid a spike in the cost of raw materials and labour whereas the prices of exported items have remained the same.

He said Japan is the second-biggest market for the leather industry. "But Japanese buyers have not raised the prices in the last one decade."

Islam does not see any possibility of exports in the leather sector rising significantly in the immediate future.

\$858m World Bank loan

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"Bangladesh has made remarkable development and economic growth since independence. New frontiers of challenges, like increasing climate change impacts, now call for urgent actions. The World Bank is committed to helping Bangladesh overcome barriers to sustainable and inclusive green growth," said World Bank country director for Bangladesh and Bhutan.

The \$358 million Road Safety Project, which is the first dedicated road safety project in South Asia supported by the World Bank, will help the country improve road safety

and reduce deaths and injuries from road traffic crashes in selected high-risk highways and district roads.

In two national highways—N4 (Gazipur-Elena) and N6 (Natore to Nawabganj)—the project will pilot comprehensive road safety measures, including improved engineering designs, signing and marking, pedestrian facilities, speed enforcement, and emergency care.

"These two projects will contribute to the country's vision of achieving upper-middle income status by 2031," said the ERD secretary.

The credits are from the World

Bank's International Development Association (IDA) and have a 30-year term, including a five-year grace period.

The PARTNER project will also receive a \$43 million co-financing from the International Fund for Agricultural Development (IFAD).

Currently, Bangladesh has the largest ongoing IDA programme totaling \$16.3 billion.

The World Bank was among the first development partners to support Bangladesh and has committed about \$40 billion in grants, interest-free and concessional credits to the country since its independence.

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If social spending is increased, inflation will cool down a bit, he also said.

Achieving a 7.5 per cent GDP growth should not be a priority, rather it now should be on maintaining macroeconomic stability, said Shawkat Hossain Masum, head of online on Bangla daily Prothom Alo.

The government's strategies for maintaining macroeconomic stability is not clear in the proposed budget, he said.

Excessive borrowing by the government from the banking system is a major concern for the

economy, said Ferdous Ara Begum, chief executive officer of Business Initiative Leading Development (BUILD). Some Tk 16 trillion is needed to reach the targeted investment-GDP ratio of 33 per cent, she added.

M Abu Eusuf, executive director of the RAPID, suggested introducing a "remittance card" to encourage remitters to send money through formal channels.

The school feeding programme for children in the budget is laudable, he said.

The proposal for individuals, who are required to submit income tax

returns to avail of various government services, to pay a minimum tax of Tk 2,000 even if they do not have taxable incomes, may be considered for withdrawal, said Planning Minister MA Mannan.

Prices of some commodities has increased and lowering inflation to 6 per cent is next to impossible, he said, suggesting state-owned Trading Corporation of Bangladesh to have large stocks of goods to intervene in the market.

ERF President Mohammad Refayet Ullah Mirdha chaired the discussion while General Secretary Abul Kashem moderated the session.