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## *Editorial Note*

In today's financial markets, both Banks and Non-Bank Financial Institutions (NBFIs) face competition in accessing funds & deposit mobilization, variety of saving and lending products launched or to be launched to the suits of customer's demand. It is an issue whether existing laws and regulations are sufficient enough to prevent distortions, of un-even competition between Banks and Non-Bank Financial Institutions. Given such a scenario, can we expect a level playing field, free of any legal or regulatory distortion? Whereas, Banks have been recently granted permission to lease finance in the industrial sector, is in a all round position to gear up the whole business within their circumference. Again in such a competitive situation, there exists a disparity in tax treatment of the loss provisions. Whereas provisions kept by scheduled banks are allowed to be deducted and hence are not taxable, it is not the case of NBFIs. In strict sense of international standards, bad debts should only be allowed to be deducted. Scheduled banks can accept any type of deposits with any type of maturity, having different depository authorities; the NBFIs do not have this lawful facility, even though they are providing the same service with the same products as that of the scheduled banks. Banks have an access to cheaper sources of funds and hence a lower cost of capital as compared to that of NBFIs. The NBFIs also have a 50% call money restriction, which the scheduled banks do not have to face. All this indicates the absence of a smooth analytical process for creating level-playing field between Banks and NBFIs.

The first article of this issue deals with monetary policy in Bangladesh. Bangladesh abandoned fixed rate exchange rate regime in 2003 and made itself as a preliminary practitioner of monetary targeting. The paper examines the issue of choice of appropriate monetary policy framework and justifies whether Bangladesh should continue monetary targeting framework or go for adopting inflation targeting regime. It recommends some policy implications for designing institutional setup that could lead to optimal monetary policy choice. The second article evaluates the application of Economic Value Added (EVA) model in small manufacturing companies where all adjustments and other technicalities are discussed with a real life example for determining the magnitude of economic value addition. The third article investigates the technical efficiency of extensive shrimp farmers in Bangladesh. The study uses stochastic frontier production function, in which the technical inefficiency effects are assumed to be functions of age, education and experience of the farmers, together with size of the farm. The empirical results indicate that although there are some farmers having quite high technical efficiency, there are a good number of farmers who are quite poor in their technical inefficiency performance. The last article is a study of the contribution of minor irrigation projects to reducing poverty and increasing rice production in Jamalpur district in Bangladesh. The study examined the profitability of STW minor irrigation projects and contribution of irrigation to reducing poverty and increasing rice production in Bangladesh. The study found that investment in STW minor irrigation projects and productions of irrigated MV Boro rice were profitable. It also identified that STW projects had made major contributions to the change of rural livelihoods.

Although two of the articles in this issue focus on the Agrarian Economy of Bangladesh, no Agrarian Economy can gain long term sustainability without a manufacturing sector, mostly Small Scale Industries, issues which have been dealt with, in one of the articles, and this also needs to timely, easy and adequate access to financing. Lastly, I would like to point out, that lack of access to funds by NBFIs due to legal and regulatory restrictions in accepting deposits is another problem that NBFIs have to face, again which is not a perpetual problem for the NCBs, is creating a major disparity, in financing the Industrial sector. Deposit definitions in the Financial Institution Act are too limiting as all deposits should be equivalent. The NBFIs need the ability to give tax effect to loss provisions, otherwise, neither banks should be allowed to give tax effects to loss provisions. Contribution to the sectoral growth is also affected. We need to develop other diversified sources of funds, e.g. Bonds–Revenue Bonds, Municipal Bonds, Asset-backed Securities, Mortgage-backed Securities; credit rating is a pre-requisite for this. Specialized financial instruments are also required to be introduced in order to overcome this disparity.

Mahmood Osman Imam — 31 December, 2004

Editor