www.gdeb.weebly.com

ISSN 2305-9168

Vol. 1, No. 2/2012

Global Disclosure of Economics and Business

ABC Research House

Asian Business Consortium

GLOBAL DISCLOSURE OF ECONOMICS AND BUSINESS
International Standard Serial Number: 2305-9168
Frequency: 2 issues per year
Established: 2012
www.gdeb.weebly.com

Review Process: Blind peer-review

Volume 1, Number 2/2012 (Second Issue)

Published by

Asian Business Consortium

All communication should be addressed to the Executive Editor, GDEB
Email: abcjournals@gmail.com

Asian Business Consortium
www.abcreorg.weebly.com

GDEB is included and indexed in
BRP Bangladesh, Research Publishing Community, Bangladesh;
IndexCopernicus™, Internationally recognized data base, Warsaw, Poland;
ASA's *Publishing Options,* An Author's Guide to Journals. Washington, DC 20005, USA;
***getCITED*,** an online, member-controlled academic database directory and discussion forum; &
Publishing 1.com, Business Portals B.V., Ericastraat 19, 5615 BJ Eindhoven, The etherlands.

Asian Business Consortium *is a self supporting organization and does not receive funding from any institution/government. Hence, the operation of the journal is solely financed by the processing fees received from authors. The processing fees are required to meet operations expenses such as employee salaries, internet services, electricity etc. Being an Open Access Journal, GDEB does not receive payment for online subscription as the journals are freely accessible over the internet. It costs money to produce a peer-reviewed, edited, and formatted article that is ready for online and print publication, and to host it on a server that is freely accessible without barriers around the clock.*

Global Disclosure of Economics and Business
Blind Peer-Reviewed Journal
Volume 1, Number 2/2012 (Second Issue)

Contents

Asian Business Consortium realizes the meaning of fast publication to researchers, particularly to those working in competitive and dynamic fields. Hence, we offer an exceptionally fast publication schedule including prompt peer-review by the experts in the field and immediate publication upon acceptance.

Measuring Underground Economy of Bangladesh: Transaction Approach

Dr. A. F. M. Ataur Rahman[1] & Afsana Rahman Khan[2]

[1]Associate Professor, Department of Economics, North South University (NSU), Bangladesh
[2]Department of Economics, North South University (NSU), Bangladesh

ABSTRACT

Underground economy is a malaise for the government that restricts its fiscal ability and infuses confusion in development planning. For a developing country like Bangladesh, which thrives for prospering this can hurt disproportionately. Therefore, measuring underground economy is important for Bangladesh. In this study, using data of 1980-2010 we have used transaction method proposed by Feige (1979) to calculate its extent in Bangladesh. We have found that unreported economy accounts a substantial portion of official GDP. Its growth rate was high positive in some years and in some other years it experienced a stagnant trend. Although few but in some years it declined relative to GDP as well.

Key words: Underground Economy, Transaction Approach, Bangladesh

GEL Classification Code: A31; O40

INTRODUCTION

Underground economy is a well-accepted phenomenon in Macroeconomics. It is the part of economy that is not reported in public accounting and hence cannot be a part of decisions. Acknowledging existence of such sector is awkward for any government as it highlights its oblivion regarding its economy, nevertheless it exists in almost all countries. Bangladesh is not an exception. Few studies have empirically proven its existence for Bangladesh.

The existence of this underground economy was first recognized in early 1970's. There is no standard definition of underground economy and thus a plethora of terms like, informal, unofficial, irregular, unrecorded, hidden, shadow economy etc are available in literature. Strictly speaking, there are small differences among the concepts that these terms refer. Typically, underground economy refers to the portion of an economy that escapes official attention. It may contain large number of individually owned small production facilities and service providers using cheap, labor intensive technology. These activities may be too insignificant for a government to run after. Therefore, if they voluntarily keep themselves out of government detection chances are slim that government will find those. Underground economy also includes illegal activities like, drug dealing, prostitution, trading of stolen goods, bribery etc. There is no way that these activities can be revealed to the government. Some activities are avertedly kept secret from government because of tax purpose. In fact, such activities constitute the largest portion of underground economy. According to United Nations Economic and Social Council (2006) "the informal sector can be seen on streets, sidewalks and back alleys of cities and includes petty traders, street vendors, coolies and porters, small

artisans, barbers and shoeshine boys". For our purpose, underground economy includes unreported incomes which may be derived from the production of legal and illegal goods and services.

Theoretically speaking, government should not be concerned about keeping track of every economic activity of its economy as long as activities are legal and do not encourage something that are malicious to the society. However, modern governments live on tax revenue and a major portion of tax is collected as income tax, which is directly related the level of economic activities. Therefore, keeping track of all income generating activities are necessary for the government for its own sake. Governments keep vigilance on their economy to detect possible tax evasion by introducing convoluted tax regulations and economic agents make their procedure more and more articulated to evade such surveillance. This is a dynamic cat and mouse game. An inevitable consequence of intricate, abstruse, esoteric tax system is disappearance of economic activities from official sector at a higher rate.

In this paper, we would like to investigate the existence and extent of underground economy for Bangladesh. There are few such previous studies dedicated only on Bangladesh and some cross-country analysis that include Bangladesh in their cross section. They all found existence of underground economy in Bangladesh. However, in some sense their data are relatively outdated. Contribution of this paper will be an updated measure of underground economy of Bangladesh following transaction method, which to the best of our knowledge was never applied on Bangladeshi data.

Rest of the paper is organized as follows: next section discusses relevant literature followed by the section of methodology and data discussion. Result obtained is presented in the subsequent section. Concluding remarks are in the concluding section.

LITERATURE REVIEW

- We can identify few causes that may induce people to participate in underground economy. The most significant and often cited causes are:
- In case of rise of tax and social security burden, underground can serve as a way out for marginal taxpayers. Sometimes, when tax rate per se is not high enough, service provided by the government may not meet expectations of taxpayers and they may feel discouraged to pay taxes properly.
- Sometimes tax regulations becomes so difficult and heavy for employers and employees so they deliberately settle down in underground economy where employees may get less but do not have to deal with troublesome regulations.
- Forced reduction of working hour, early retirement; unemployment, sometimes may induce people to work in unreported sector.
- Falling tax morale can always explain such acts. Sometimes acceptability of the government among its people can contribute to waning tax morale.

Apart from these "supply" side reasons, there may be some demand side reasons as well:

- Underground economy is normally more efficient than over the ground economy. Over the ground economy, generally requires to comply with many regulations, therefore can be quite bureaucratic. In that respect, underground economy is "direct" and dynamic.
- Underground economy may supply goods and services that are well demanded in market but are not supplied by existing system.
- In underground economy, market operates closer to free market principles than over the ground economy and thus can encourage entrepreneurship.
- Underground economy operates as a failure of official economy. Therefore, its operation is an answer of "illegal" rules, oppressions, social exclusion and things of that sort.

Measuring underground economy is a challenge for economists and they devised a number of ways to address that challenge. These methodologies can be broadly classified in two groups: direct and indirect. In direct method researcher wants to estimate the extent of undeclared income through extensive representative survey (Williams, 2006) or tax auditing (Thomas, 1992). Although such procedures are conceptually fine and can give first hand knowledge about hidden income yet their accuracy is frequently questioned, as respondent may not be quite comfortable to answer questions involving their undisclosed income. Survey based methods have their innate limitations, like biasness.

Indirect methods try to determine the size of underground economy by picking intelligent traces or indicators that underground economy may leave behind. Underground activities are deliberately kept hidden from government's notice therefore; they are not in official statistics. However, if we run clever investigation to diagnose "inconsistencies" between different macro variables then we can trace underground economy. Examples of such indirect methods are physical input (electricity consumption) approach, monetary approach, transaction approach, structural equation approach etc. In physical input method, we try to find out discrepancy between expected output based on energy consumption and actual output. Their difference is considered to be hidden (see Feige and Urban, 2008).

Gutmann (1977) first introduced monetary approach and subsequently are followed in many studies. Gutmann (1977) in his groundbreaking work tried to estimate the size of underground economy of the United States for the year 1976. He made a crucial assumption that there was no underground economy prior to World War II. Such assumption has become increasingly popular since then. Most of the methods that measure underground economy make such assumption. Feige (1979) Tanzi(1980,1982, 1983), Klovland (1980, 1984), Bhattacharyya (1990), and Escobedo and Mauleon (1991) and many other studies developed different variants of the monetary approach and applied for estimation underground economy of countries like U.S., Italy, Norway, Canada, South Africa, Tanzania, Mexico, India, Australia, Austria, Belgium, Denmark, France, Germany, Great Britain, Ireland, Netherlands, New Zealand, Spain, Sweden, Switzerland Argentina, etc.

Ahumada, Alvaredo and Canavese (2008) identified popularity of monetary method because of motivational simplicity and intuitive nature. In fact, a sizable literature on underground economy is available and an interested reader can find an interesting survey in Schneider and Enste (2000), Kazemier (2006), Pickhardt and Shinnick (2008) or Adair (2011).

Researches have been done on Bangladeshi underground economy as well. Reza (1989) guesstimated size of black economy for Bangladesh of 1985 as one third of official economy. That study did not follow any particular methodology rather some informed discussion and local knowledge served as the base of such deliberation. Later Hassan, (1997) following currency model estimated underground economy of Bangladesh and found the figure as around 23 percent of the formal GDP during 1972 – 95. In a cross-country study Schneider, Buehn and Montenegro (2010) found the size of the underground economy in Bangladesh was 35.9% of official GDP over 1999-2007. Buehn and Schneider (2011) also found similar figure for Bangladesh. Indicators (inequality, social insecurity, overcrowded cities, high rate of self employment, lower income tax and etc) that provide well established significance of the size of underground economy are deemed to be prevalent in Bangladesh and therefore we think that our study will also find presence of significant underground economy as well.

METHODOLOGY

As explained earlier, methodologies of determining underground economy has two broad categories, those are direct survey-based methods and indirect methods. Each class has its own

strengths and limitations. However, the problem lies in the measurement technique. Government strive to detect unreported income but as soon as it succeeds it no longer remains in the underground. Transaction method is an indirect way to estimate underground activities from trails that it leaves behind in official economy.

As a part transaction method, we fixed year 1980, as our starting point of calculation. Rational behind such picking is that before 1980 the country was in severe political turmoil since its independence in 1971, which resulted fiscal indiscipline. During late 1970s political situation slowly improved and things started getting back on track. Therefore, it is a good time to start our calculation. This however does not mean that we are assuming prior to 1980 underground economy of Bangladesh non-existent. It just means that 1980 is good point to serve as baseline.

We followed Feige (1979) methodology in our estimation. This methodology assumes that there is a constant relationship (denoted by K) between the money supply related to economic transactions and total value added (e.g. GDP). Feige's transaction method starts with Fisher's equation of exchange:

$$M*V = P*T \qquad (1)$$

Where M represents the money in circulation (sum of currency in circulation and demand deposits), V is velocity of money (rate at which money circulated or turn over in an economy at a given time period), P the price level and T the level of transaction.

Following assumption of constant relationship between money flows related to transactions and total value added, therefore:

$$P*T = K*(Y_T)$$

Where Y_T is the sum of official value added and underground value added. In other words, it is the sum of the total output of an economy considering both formal and informal segments. Hence,

$$P*T = K*(Y_O + Y_U) \qquad (2)$$

Where Y_U is the value added in underground sector and Y_O is the value added in official sector. Bringing time dimension and substituting that in equation (1) we get:

$$M_t*V_t = K*(Y_{Ot} + Y_{Ut}) \qquad (3)$$

Assuming zero underground economy at period $t = 0$, we determine K of that period and consider that K to remain fixed throughout the whole period. We calculate the constant K by simple algebraic manipulation of equation (3) above assuming Y_{Ut} equal to zero.

Armed with the benchmark value of K we can calculate the value of Y_T underground for subsequent periods, again using algebraic manipulation of equation (3) such that:

$$Y_{Ut} = \frac{M_t*V_t}{K} - Y_{Ot} \qquad (4)$$

To determine the total money supply (M) we summed up currency in circulation and demand deposits $(CC + DD = M)$. Then to get $M*V$, we multiplied money supply

(M) with velocity of money (V). Following equation (3) our next step was to estimate the value of constant variable (K), which we found as 0.53.

Then using equation, (4) we calculated the value of underground economy.

DATA

Basic macroeconomic time series data on GDP, currency in circulation, demand deposits, velocity of money, and broad money (M2) are collected from Monthly Economic Indicators published by Bangladesh Bank and Statistical Yearbooks published by the Bangladesh Bureau of Statistics (BBS). Our focus was from fiscal year 1980 to fiscal year 2010.

We did not have data on velocity of money from fiscal year 1980 to fiscal year 1993; as a result, we had to calculate velocity. In order to calculate the velocity of money we used the Fischer equation:

$$M*V = P*T$$

$$M*V = Y \text{ as } P*T = Y$$

$V = \frac{Y}{M}$ [in this case we used $M2$, as money supply to avoid the problem of circularity in the equation]

We calculated velocity of money for some overlapping years just to ensure that our values are correct. As we found them matching we filled out missing figures and calculated underground economy.

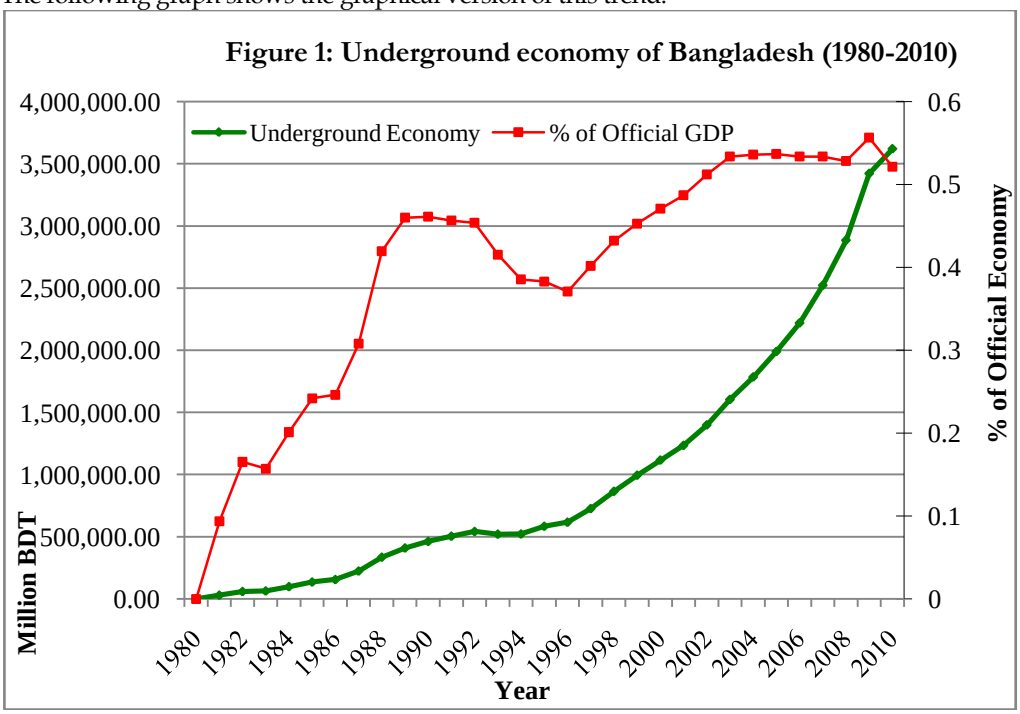
DESCRIPTION OF RESULTS

Our result is given in the following table:

Period	Underground Economy (Million BDT)	% of Official GDP
1980	0.00	0
1981	30,240.30	0.093874
1982	59,826.22	0.165385
1983	64,157.06	0.157129
1984	98,583.26	0.201278
1985	136,011.54	0.242038
1986	155,898.53	0.246405
1987	224,263.46	0.308177
1988	335,613.20	0.419554
1989	409,626.83	0.459946
1990	462,605.47	0.461089
1991	504,430.38	0.456423
1992	542,534.79	0.453843
1993	520,862.81	0.415462
1994	521,860.89	0.385387
1995	584,214.40	0.383047
1996	616,817.70	0.370853
1997	726,332.68	0.401952

1998	865,236.23	0.432237
1999	994,949.70	0.452873
2000	1,116,160.17	0.470784
2001	1,234,763.62	0.486997
2002	1,399,073.59	0.512104
2003	1,604,317.25	0.53374
2004	1,784,792.02	0.536017
2005	1,990,033.02	0.536821
2006	2,219,518.71	0.533887
2007	2,522,495.88	0.533888
2008	2,884,940.51	0.528549
2009	3,421,671.12	0.556555
2010	3,620,154.31	0.521392

The following graph shows the graphical version of this trend:



Since we arbitrarily selected our initial year therefore, calculated absolute figures will not be that informative. Growth figures will however, contain meaningful information. We can infer following conclusions from this exercise:

- Over this period (1980-2010) size of underground economy of Bangladesh was quite large
- Over these year underground economy increased almost steadily
- However, compared to official economy its growth pattern showed increasing trend in some years and decreasing trend in some other years

Underground economy is a macroeconomic phenomenon and therefore it is related with government policy. Following that vein, we can think of its relationship with political regimes

of the country. During the period considered (1980-2010) there were quite a few regimes. It started with Ziaur Rahman, then Jatiya Party (Hussain Mohammed Ershad, 1982 to 1990), Bangladesh Nationalist Party (Khaleda Zia, 1991 to 1996), Awami League (Sheikh Hasina, 1996 to 2001), again by Bangladesh Nationalist Party (Khaleda Zia, 2002 to 2006), a caretaker government system (2006 to 2008) and finally again Awami League (Sheikh Hasina, 2009 to present).

During Ershard's tenure, underground economy grew more rapidly than the official economy. During this time unreported activities reached 45% official economy assuming zero at 1980. This goes with the guesstimation of Reza (1989). In 1991, when Bangladesh Nationalist Party (BNP) came to power, the size of underground economy remained constant with respect to official economy. That is both sectors grew at a same pace. During the end of this tenure, it experienced even a mild decrease. After that, between 1996-2001 Awami League (AL) came to power and during this period, underground economy became almost double. We observe a steep rise (around 30%) of this sector as percentage of GDP. When BNP again came to power underground economy again leveled off at around 50% of the official GDP. Since then it has a small gain in last couple of years.

Regarding composition and causes of underground economy in Bangladesh, we can think of several avenues. Bangladesh has a large agricultural sector and a significant portion of the country's income comes from this sector. Earnings from this sector mostly remain out of government calculations. Hence, this income can give rise to the size of informal economy.

In urban economy, one of the booming sectors is real estate construction. Mostly day laborers work in these construction sites. As the level of construction grows with time; number and income of day laborers grow as well. They are mostly out of tax calculations. This could be another reason for the rapid increase in the size of informal economy.

In last two decades or so, Bangladesh has experienced fast and uneven growth. Urbanization is a dominant trend; people from the rural areas migrate to the capital city Dhaka in search of a better life and employment. Many of them engage themselves in small businesses such as, selling vegetables on the street, small tea shop at the corner of an alley etc. As the number of these people increase; unreported economy also become buoyant.

Finally, tax evasion can contribute significantly in this sector. Many people, in order to avoid tax do not register their businesses, and stay informal. In last decade or so, online home based businesses mushroomed in urban areas. Established businesses evade tax through false reporting and/or taking help of regulatory loopholes. Rise of professional class and their expansive lifestyle indicate their income level but they also are alleged to hide a significant portion of their legal and illegal income for tax purpose. Bangladesh in last decade has got significant criticism for being at the high end of the list of most corrupted countries around the world. Income from such corruption in the form bribery and undisclosed income, along with income from drug dealing contributes to the swelling figure of underground economy. Government officials of Bangladesh do not bear an immaculate image making tax evasion not the most difficult thing to do in Bangladesh. All these may contribute positively in the swelling of unreported sector.

CONCLUSION

Large underground economy can interfere with fiscal capacity of the government and thus may weaken government's possibility to tighten its grip on the economy. This is certainly not good for an economy like Bangladesh that thrives for growth and development. Although effect of underground economy on official economy is not clear in literature, it certainly

interacts with growth potential and undermines government authority (Besley and Persson, 2010). Therefore, government of Bangladesh should at least keep an eye on growth of underground economy and if possible to restrict.

BIBLIOGRAPHY

Adair, P. (2011). Non-Observed Economy in the European Union countries (EU-15): A comparative analysis of estimates, in: M. Pickhardt and A. Prinz (eds.), Tax Evasion and The Shadow Economy, Cheltenham: Edward Elgar, forthcoming.

Ahumada, Hildegart, Facundo Alvaredo, and Alfredo Canavese, (2007), "The Monetary Method and the Size of the Shadow Economy: A Critical Assessment," Review of Income and Wealth, 53(2), 363-371.

Bhattacharyya, D. K. (1990). An econometric method of estimating the hidden economy, U.K. (1960–1984): estimates and tests, Economic Journal, 100, pp. 703–717.

Escobedo, M. I. and Mauleón, I. (1991). Demanda de dinero y economía sumergida, Hacienda Pública Española, 119, pp. 105–25.

Feige, E. and Urban, I. (2008) 'Measuring Underground (Unobserved, Non-Observed, Unrecorded) Economies in Transition Countries: Can We Trust GDP?', Journal of Comparative Economics 36: 287-306.

Feige, E., "How Big is the Irregular Economy? Challenge, **22**(1), 5–13, 1979

Gutmann, P. (1977) 'The Subterranean Economy', Financial Analysts Journal 33: 26-34

Hassan K M (1997), The Estimation and Policy Implications of the Underground Economy: The Case for Bangladesh, The Bangladesh Development Studies, Vol. 25, No. 3/4 (Sept.- Dec. 1997), pp. 151-173

Kazemier, B. (2006). Monitoring the Underground Economy – A Survey of Methods and Estimates, in: Enste, D. and Schneider, F. (eds.), Jahrbuch Schattenwirtschaft 2006/2007, Vienna: LIT, pp. 11–53.

Klovland, J. T. (1980). In search of the hidden economy: Tax evasion and the demand for currency in Norway and Sweden. Discussion Paper 18/80, Norwegian School of Economics and Business Administration, 1980.

Klovland, J. T. (1984). Tax Evasion and the Demand for Currency in Norway and Sweden. Is there a Hidden Relationship? Scandinavian Journal of Economics, 86 (4), pp. 423–439.

Pickhardt, M. and Shinnick, E. (2008). Governance and Illicit Activities: A Survey of Recent Issues and Developments, in: Pickhardt, M. and Shinnick, E. (eds.), The Shadow Economy, Corruption and Governance, Edward Elgar: Cheltenham, pp. 3–17.

Reza, S (1989) Black Economy In Bangladesh: Some Preliminary Observations, Savings and Development, Vol. 13, No. 1 (1989), pp. 23-43

Schneider, F. and Enste, D. (2000). Shadow Economies: Size, Causes, Consequences, Journal of Economic Literature, 38, pp. 77–114.

Schneider, Friedrich, Andreas Buehn, and Claudio E. Montenegro (2010), "Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007," World Bank Policy Research Paper 5356.

Schneider, Friedrich, Andreas Buehn, and Claudio E. Montenegro (2011), "Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007," forthcoming in: Schneider, Friedrich (Ed.), Handbook on the Shadow Economy, Edward Elgar Publishing

Tanzi, V., "The Underground Economy in the United States: Annual Estimates, 1930–80," IMF Staff Papers, **30**(2), 1983.

Tanzi, V., "Underground Economy and Tax Evasion in the United States: Estimates and Implications," in V.Tanzi (ed.), The Underground Economy in the United States and Abroad, Lexington Books, 1982.

Tanzi, Vito, The Underground Economy in the United States: Estimates and Implications, Banco Nazionale del Lavoro, Rome, December 1980.

Thomas, J.J. (1992), Informal Economic Activity, LSE Handbooks in Economics, London: Harvester Wheatsheaf.

United Nations Economic and Social Council, (2006). The Role of Informal Sector in Poverty Reduction (3rd ed.). Bangkok: United Nations Economic and Social Council.

Williams, C. C. (2006), Entrepreneurship and the Underground Economy: The Missing Link, Edward Elgar, Aldershot.

Service Gap of Selected Public and Private Commercial Banks in Bangladesh

Mst. Momena Akhter

Lecturer, Faculty of Business, ASA University Bangladesh

ABSTRACT

The economy of a country is largely dependent on banking sector. In this case, Bangladesh is not exceptional. Both public and private banks play a vital role in the economy, making up one of the biggest providers of services in the Bangladesh economy. In the current banking environment, service quality is one of the main weapons, which enables the banks to differentiate from each other. It is said that service quality has become an important factor to survive and succeed in the banking sector. Hence, providing a better service quality is vital, as banks have to compete for customers. In this paper, the factors leading to the service provider gaps in case of selected public and private commercial banks have been identified and measured and it attempts to show the relationship between the provider gaps of these banks and the gap between expected service and perceived service (customer gaps). Two public commercial banks (Janata Bank Ltd., and Agrani Bank Ltd.) and two private commercial banks (Dutch Bangla Bank Ltd., and Prime Bank Ltd.) were selected for the purpose of the study. In this paper there is an endeavor to recognize whether the service provider gaps and the customer gaps are correlated and takes into consideration the problems of organizational quality gaps where the quality losses occur. This will help the management of these banks to know where the service gaps lie and how to close the gaps for providing quality service to their clients. This study shows that the overall service gap is higher in the public commercial banks in comparison to the private commercial banks. To remove this gap and to improve the overall service quality this paper has recommended some measures for both public and private commercial banks in Bangladesh.

Key Word: Service, Quality, Service gap, Expected Service, Perceived service, SERVQUAL, Bangladesh.

GEL Classification Code: M30; M31

INTRODUCTION

Managers in the service sector are under increasing pressure to demonstrate that their services are customer-focused and that continuous performance improvement is being delivered. Given the financial and resource constraints under which service organizations must manage it

is essential that customer expectations are properly understood and measured and that, from the customer's perspective, any gaps in service quality are identified. This information then assists a manager in identifying cost-effective ways of closing service quality gaps and of prioritizing which gaps to focus on a critical decision given scarce resources.

While there have been efforts to study service quality, there has been no general agreement on the measurement of the concept. The majority of the work to date has attempted to use the SERVQUAL (Parasuraman et al., 1985; 1988) methodology in an effort to measure service quality (e.g. Brooks et al., 1999; Chaston, 1994; Edvardsson et al., 1997; Lings and Brooks, 1998; Reynoso and Moore, 1995; Sahnet et al., 2004).

One of the aims of this study involves identifying and measuring the factors leading to the service provider gaps in case of selected public and private commercial banks in Bangladesh. Another aim of this paper is to show the relationship between the provider gaps of these banks and the gap between expected service and perceived service (customer gaps). In the following, after a brief review of the service quality concept, the model of service quality gaps is demonstrated and then, after a discussion, major conclusions are derived.

LITERATURE REVIEW

The service sector is expanding at an increasing rate and is becoming intensely competitive (Chen, Gupta and Rom, 1994; Johnson, Dotson and Dunlap, 1988).Service can be defined as any activity or benefit that one party offers to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. A company's offerings often include some services (Lovelock Christopher, 2004).

The nature of most services is that the customer is present in the delivery process. This means that the perception of quality is influenced not only by the 'service outcome' but also by the 'service process' (Ghobadian Abby, Speller Simon & Jones Matthew, 1994). Many researchers and authors define service qualities in different ways. Service quality is a measure of how well a delivered service matches the customers' expectations. Quality in service is very important especially for the growth and development of service sector business enterprises (Powell, 1995). Service quality is defined as how well the service meets or exceeds the customers' expectations on a consistent basis (Crosby, 1979; Parasuraman, Zeithaml and Berry, 1985). Parasuraman et al., Liljander, and Tore (1992) agreed that service quality is the difference between expectation and the performance of the service or the perception of the customer.

Among the contemporary instruments for measuring service quality, SERVQUAL has got attention by the researchers in various fields including insurance, bank, education, Information Technology (IT), etc. as it deals with users views regarding services (Parasuraman et al., 1985). This model is based on a comparison between the customers' expectations of the standard of service he/she will receive and his/her perception of the standard of service that is actually delivered. Furthermore, Parasuraman et al., see their service quality measurement model as one of the models that have been shown to enjoy a high degree of validity and stability. The model attempts to show the salient activities of the service organization that influence the perception of quality. Moreover, the model shows the interaction between these activities and identifies the linkage between the key activities of the service organization or marketer, which are pertinent to the delivery of a satisfactory level of service quality. The links are described as gaps or discrepancies; that is to say, a gap represents a significant hurdle to achieving a satisfactory level of service quality (Ghobadian et al., 1994).

The primary thesis of the model is that the service quality shortfall (i.e. Gap 5, the gap between customer service expectations and perceptions) is the result of a series of

shortfalls within the service provider's organization i.e. Gap 1-4). Thus, improving the quality of service experienced by customers (i.e. closing Gap 5) requires diagnosing the causes of and correcting the internal deficiencies (i.e. Gap 1-4) (Parasuraman, 2004).

Luk and Layton (2002) developed the traditional model of Parasuraman et al. (1998) by adding two more gaps. They reflect the differences in the understanding of customer expectations by manager and front-line service providers and the differences in consumer expectations and service providers' perceptions of such expectations.

Alam M.M.D and Momotaz S.N. (2008) measured the Diagnostic Centers' expectations and perception about service of local customized software of Bangladesh. They found out the gap between the clients' expectations and perception using SERVQUAL model. They also showed the relationship between the five dimensions (reliability, responsiveness, assurance, empathy and tangibility) and client satisfaction.

In the study of service quality in the banking sector in Turkish banking, Yavas et. al., (1997) focused on the relationship between service quality on consumer satisfaction, complaint behavior and commitment. Their study found that overall service quality was a significant determinant customer satisfaction, complaint behavior and commitment.

Amin and Isa (2008) examined the relationship between service quality perception and customer satisfaction in Malaysian Islamic banking. They found that the relationship between service quality and customer satisfaction was significant.

METHODOLOGY OF THE STUDY

As the study is about measuring the service gap of public and private commercial banks, the population includes the customers of selected public and private commercial banks in Bangladesh. However two public commercial banks (Janata Bank Limited, and Agrani Bank Limited) and two private commercial banks (Dutch Bangla Bank Limited, and Prime Bank Limited) were selected for the purpose of the study. The total sample size has been set at 200, with 50 respondents representing each of the mentioned banks. Though the sample size is not representative part of the population, the present study might be focused on future study with big sample size. The sample size was selected by using simple random sampling approach which is based on easy accessibility of the sample.

The SERVQUAL approach of Parasuraman et al. (1985, 1996, 1988, 1991, and 1994) was demonstrated for identifying and measuring the service quality gaps. A structured questionnaire has been used to collect the data. The questionnaire has been developed in a way that reveals the respondent's response related to each of the independent variables. All the questions were taken into consideration for the regression model analysis. A linear regression model has been developed to measure whether the service provider gaps and the customer gaps are correlated.

The secondary data were collected from consulting various documents, reports, articles, case studies, books, and internet and so on. The collected data were analyzed keeping in mind the objective of the study. The period of study is January 2012 to Augusts 2012.

MODEL OF SERVICE QUALITY GAPS

There are seven major gaps in the service quality concept, which are shown in Figure 1. These seven gaps are described below:

Gap 1: Customer's expectation versus management perceptions

This gap occurs because of the lack of marketing research orientation, inadequate upward communication and too many layers of the management.

Gap 2: Management perceptions versus service specifications

It happens because of inadequate commitment to service quality, a perception of feasibility, inadequate task standardization and absence of goal setting.

Gap 3: Service specifications versus service delivery

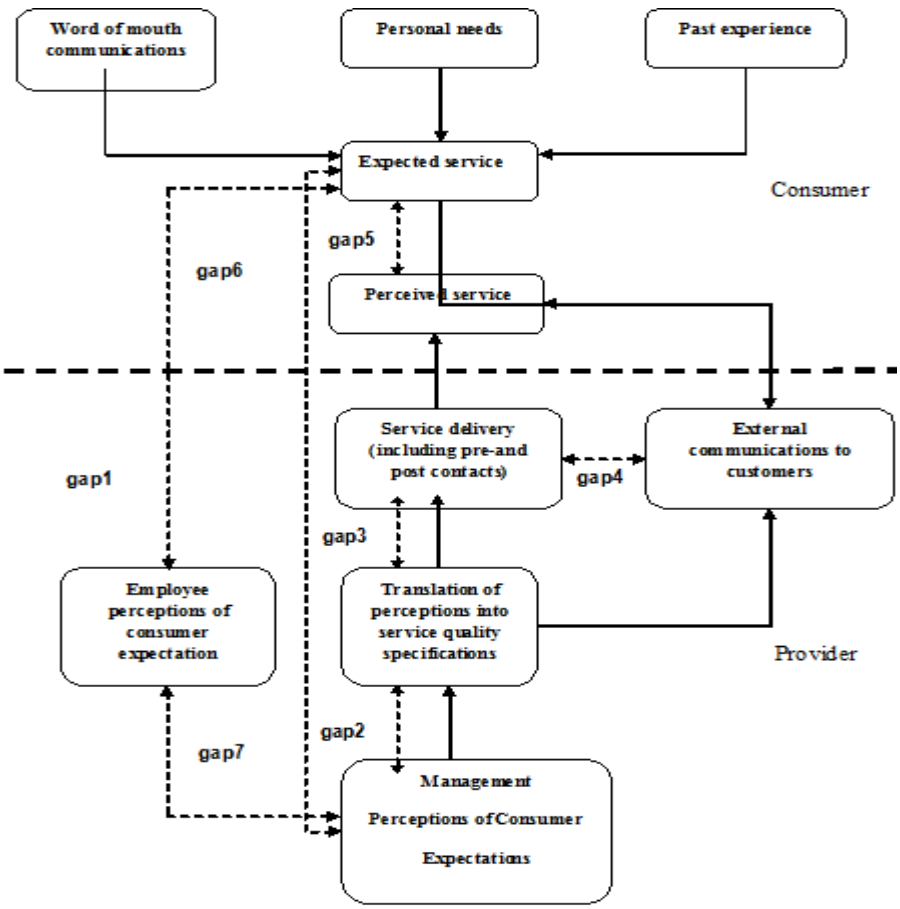
The third gaps takes place because of role ambiguity and conflict, poor employee-job fit and poor technology-job fit, inappropriate supervisory control systems, lack of perceived control and lack of teamwork.

Gap 4: Service delivery versus external communication

It arises from inadequate horizontal communication and propensity to over-promise.

Gap 5: The discrepancy between customers' expectations and their perceptions of the service delivered

Because of the influences exerted from the customer side and the shortfalls (gaps) on the part of the service provider, the fifth gap that is known as customer gap.



Source: (Parasuraman et al., 1985; Curry, 1999; Luk and Layton, 2002)

Figure1. Conceptual Model of Service Quality Gaps

Gap 6: The discrepancy between customers' expectation and employee perceptions

This gap is created because of the differences in the understanding of customers' expectations by front-line service providers

Gap7: The discrepancy between employees' perceptions and management perceptions

The seventh gap happens because of the differences in the understanding of customers' expectations between managers and service providers.
The present study focuses on six provider gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6, and Gap 7) and also shows the relationship between these provider gaps and the customer gap (Gap 5).

FINDINGS

Past studies suggest that service provider gaps affect the customer gap i.e. the gap between customer expectation and customer perception of service. In this study also, a relationship between the provider gaps and customer gaps is reviewed. The relationship between the provider gaps (independent variables) and customer gap (dependent variable) has been detected and analyzed by using a linear regression analysis. In this analysis, the coefficient correlation indicates how strong the relationship is. Here both t-value and significance designate the nature and importance of the relationship.

PUBLIC COMMERCIAL BANK

Descriptive Analysis:
Average gap score of seven gaps is 2.9883. In this study, gap 7 is appeared as the lowest gap in case of public commercial banks. This refers that management of the banks has frequent face-to-face contact with the customer contact employees. Though gap 1 is appeared as the 2nd lowest gap (2.91); still there exists a significant gap. This refers that the management is yet unable to understand the customer expectations properly. We see that insufficient marketing research is a major contributor to gap 1. Gap between Service quality specification and service delivery (gap 3) is found as the largest quality gap.

Table 1: Descriptive Statistics

Research Items	N	Mean	Std. Deviation	GAP
Managers perfectly know customer's expectations **(Gap 1)**	100	4.0900	.95447	2.91
Management perfectly set the performance standard according to the perception of service quality **(Gap 2)**	100	3.9900	.90448	3.01
The service is provided perfectly according to the set standards and specifications **(Gap 3)**	100	3.9000	.87039	3.10
Advertisement and other communications perfectly reflect services which are provided **(Gap 4)**	100	4.0100	.93738	2.99
Employees give individual attention to every customer **(Gap 6)**	100	3.9700	.83430	3.03
Management of the bank has frequent face-to-face contact with the customer contact employees**(Gap 7)**	100	4.1100	.76403	2.89
Average Gap		***4.0116666***		***2.9883***

Source: Primary

Empirical findings show that giving individual attention to every customer (gap 6) exerts a significant impact on service quality. It is the second largest internal gap of public commercial banks. This means that employees are unaware about customer expectations and customer relationship is not focused in the public banks. Lack of customer driven standard and poor visually appealing physical facilities of this bank, increase the customer dissatisfaction in a great extent. Score of gap 3, gap 4, and gap 7 are also very close to the score of largest gap. This indicates that there is a lack of coordination among the inter and intra departments of Public commercial Banks. That is why; large service gaps exist which decrease service quality and causes poor customer satisfaction.

Regression Analysis Model:

The regression equation is as follows:

Variation between expected service and perceived service (Customer gap)

$$(\hat{Y}) = b_0 + b_1 * X_1 + b_2 * X_2 + b_3 * X_3 + b_4 * X_4 + b_5 * X_5 + b_6 * X_6 + \text{error}$$

Where,

B_0= Intercept, X_1= Gap 1, X_2= Gap 2, X_3= Gap 3, X_4= Gap 4, X_5= Gap 6, and X_6= Gap 7

b_1, b_2, b_3, b_4, b_5, b_6 are the Coefficients of X_1, X_2, X_3, X_4, X_5, and X_6 respectively.

Table 2: Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	Gap7, Gap6, Gap1, Gap4, Gap2, Gap3(a)	.	Enter

Source: Primary

a All requested variables entered.

b Dependent Variable: Customer' expected and perceived service match with the bank (Customer Gap)

From table 2, it is visible that the variables entered in the calculation of relationship between the provider gaps and customer gap. The dependent variable is the customer gap.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.715(a)	.511	.479	.51953	16.183	.000(a)

Source: Primary

a Predictors: (Constant), Gap7, Gap6, Gap1, Gap4, Gap2, Gap3

Positive Value of coefficient correlation (R) indicates that there is a positive relationship between the independent and dependent variables. Value of R is 0.715, which indicates there is a moderate relationship between the dependent variable (Variation between expected service and perceived service) and the independent (Gap1, Gap2, Gap3, Gap4, Gap6, and Gap7) variables considered at the model.

The value of coefficient of determination R2 is 0.511 and this specifies that 51.1%of the variation in the dependent variable be explained by the independent variables. That means

48.9% variation in the dependent variable is clarified by other external variables. The f value is 16.83 and it is more than significant value 0.000. Thus the model has been accepted.

Table 4: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.364	.396		3.441	.001
	Gap1	.248	.095	.329	2.611	.011
	Gap2	.054	.086	.068	.628	.532
	Gap3	.187	.102	.226	1.830	.070
	Gap4	.019	.068	.025	.278	.781
	Gap6	.188	.083	.218	2.275	.025
	Gap7	.055	.073	.058	.754	.453

Source: Primary

a Dependent Variable: Customer's expected & perceived service match with this bank (Customer Gap)

Analysis of co-efficient provides us which independent variables have a significant relationship with the dependent variable. So,

Variation between expected service and perceived service (Customer gap)

$(\hat{Y}) = 1.364+0.248* X_1+ 0.054* X_2+0.187* X_3+0.019* X_4+ 0.188* X_5+0.055* X_6$

Where, X_1= Gap 1, X_2= Gap 2, X_3= Gap 3, X_4= Gap 4, X_5= Gap 6, and X_6= Gap 7

From the table it can be seen that only the significance level for Gap 1 (management's unawareness about customer's expectations) (0.011), and Gap 6 (employees unawareness about customer expectations) (0.025) are less than level of significance (0.05). Hence, there may have a significant relationship between the "Customer gap "and Gap 1 and Gap 6. But for all other variables, significance level is higher than 0.05. So, we can conclude that there may not have any significant relationship between "Customer gap" and Gap 2, Gap 3, Gap 4, and Gap 7.

PRIVATE COMMERCIAL BANKS

Descriptive Analysis:

The average gap score of seven gaps is 1.97 in case of the selected Private Commercial Banks. The score of smallest gap, Gap 1 (1.86) shows that the management has somewhat knowledge about the customer expectations. In contrast, gap between customer service quality specification and service delivery (gap 3) is found as the largest quality gap and gap between management perception & service quality specification (Gap 2) is also very close to the score of largest gap.

Table 5: Descriptive Statistics

Research Items	N	Mean	Std. Deviation	Gap
Managers perfectly know customer's expectations **(Gap 1)**	100	5.1400	.66697	1.86

Management perfectly set the performance standard according to the perception of service quality **(Gap 2)**	100	4.9100	.76667	2.09
The service is provided perfectly according to the set standards and specifications **(Gap 3)**	100	4.9000	.58767	2.10
Advertisement and other communications perfectly reflect services which are provided **(Gap 4)**	100	5.1000	.75879	1.90
Employees give individual attention to every customer **(Gap 6)**	100	5.0100	.74529	1.99
Management of the bank has frequent face-to-face contact with the customer contact employees**(Gap 7)**	100	5.1000	.73168	1.90
Average Gap		***5.0266666***		***1.97***

Source: Primary

The issue of how to match employees' perception and customers' expectations in the organization is important difficulty (gap 6) for the Private Commercial Banks. It appears that, it is a little bit challenging to educate and make qualify the personnel to understand the customers' need and expectation from the bank.

Apparently, the internal gaps-gap 4, and gap 7 may be seen as minor. But here still exists some problems, which cause the service quality to deteriorate. So, management is expected to take corrective measures as par the reports.

Regression Analysis:

From table 6, it is visible that the variables entered in the calculation of relationship between the provider gaps and customer gap. The dependent variable is the customer gap.

Table 6: Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	GAP7, GAP3, GAP2, GAP4, GAP1, GAP6(a)	.	Enter

Source: Primary

a All requested variables entered.

b Dependent Variable: Customer' expected and perceived service match with the bank (Customer Gap)

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.686(a)	.471	.437	.43088	13.801	.000(a)

Source: Primary

a Predictors: (Constant), Gap7, Gap3, Gap2, Gap4, Gap1, Gap6

Positive Value of coefficient correlation (R) indicates that there is a positive relationship between the independent and dependent variables. Value of R is 0.686, which indicates there is a moderate relationship between the dependent variable (Variation between expected service and perceived service) and the independent (Gap1, Gap2, Gap3, Gap4, Gap6, and Gap7) variables considered at the model.
The value of coefficient of determination R2 is 0.471 and this specifies that 47.1%of the variation in the dependent variable be explained by the independent variables. That means 52.9% variation in the dependent variable is clarified by other external variables. The f value is 13.801 and it is more than significant value 0.000. Thus the model has been accepted.

Table 8: Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.499	.531		2.824	.006
	Gap1	.216	.081	.251	2.650	.009
	Gap2	-.024	.062	-.032	-.382	.703
	Gap3	.291	.089	.298	3.272	.001
	Gap4	.027	.064	.035	.422	.674
	Gap6	.194	.078	.251	2.476	.015
	Gap7	.104	.064	.133	1.627	.107

Source: Primary

a Dependent Variable: Customer's expected & perceived service match with this bank (Customer Gap)

Analysis of co-efficient provides us which independent variables have a significant relationship with the dependent variable.
So, Variation between expected service and perceived service (Customer gap)

$$(\hat{Y}) = 1.499+0.216*X_1- 0.024* X_2+0.291* X_3+0.027* X_4+ 0.194* X_5+0.104* X_6$$

Where, X1= Gap 1, X2= Gap 2, X3= Gap 3, X4= Gap 4, X5= Gap 6, and X6= Gap 7
From the table it can be seen that the significance level for Gap 1 (management's unawareness about customer's expectations) (0.009), Gap 3 (Gap between service quality specification and service delivery) (0.001) and Gap 6 (employees unawareness about customer expectations) (0.015) are less than level of significance (0.05). Hence, there may have a significant relationship between the "Customer gap "and Gap 1, Gap 3 and Gap 6. But for all other variables, significance level is higher than 0.05. So, we can conclude that there may not have any significant relationship between "Customer gap" and Gap 2, Gap 4, and Gap 7.
Comparative review of service quality gap of the selected Public and Private Commercial Banks:
The overall service gap is much higher in Public Commercial Banks in comparison to Private Commercial Banks. The overall service gap is 2.9883 in Public Commercial Banks, whereas it is only 01.97 in Private Commercial Banks. The picture may clearly be viewed in the following table:

Service gaps	Public Commercial Bank	Private Commercial Bank
Gap between customers' expectations and management perceptions **(Gap 1)**	2.91	1.86
Gap between management perceptions and service specifications **(Gap 2)**	3.01	2.09
Gap between service specifications and service delivery **(Gap 3)**	3.10	2.10
Gap between service delivery and external communication **(Gap 4)**	2.99	1.90
Gap between customer expectations and employees' perceptions **(Gap 6)**	3.03	1.99
Gap between employee's perceptions and management perceptions (**Gap 7)**	2.89	1.90
Average gap	***2.9883***	***1.97***

Source: Primary

From the study it can be concluded that the internal (provider) gaps of Public Commercial Banks are higher than that of Private Commercial Banks. This refers that the service quality of Private Commercial Banks is better than that of the Public Commercial Banks. But the authority of Private Commercial Banks should be conscious of existing service gaps to ensure more quality service and customer satisfaction.

LIMITATION OF THE STUDY

The findings of this study can be generalized after taking into consideration certain limitations. A small number of respondents (50 for Janata Bank Ltd., 50 for Agrani bank Ltd., 50 for Dutch Bangla Bank Ltd., and 50 for Prime Bank Ltd.) from Dhaka city have been used in this study. The respondents were selected on the basis convenience. So, the samples may not represent the population of the country. Besides, there were time and financial constraints to perform the study. Finally, in this study the perception of the clients of the service of the banks have been focused, which may not perfectly represent the actual service gaps of these banks. So the future researchers are suggested to remember the limitations of the study in further research in this area.

CONCLUSION & RECOMMENDATIONS

This research brings into light the service gaps present in selected private & public commercial banks in Bangladesh. It also shows how the provider gaps impact customer gap. The public commercial banks are not meeting the ever-increasing demand of their clients. To survive in competition with private sector's bank, competitive and professional attitude is to be created in the mind of the employees of the public sector's banks. Proper training and education is to be provided to the employees of Public Commercial Banks. In that case the salary structure of the bank employees is to be enhanced in consistence with private sector's bank. If this structural adjustment is not done properly and timely, public sector's banks will suffer from liquidity crises that may lead to lose solvency in future.

From this study, we can learn that there is a huge gap in service providing process of the public commercial banks. To remove this gap, the overall organizational system should be

changed and improved. Following criteria are recommended from clients' viewpoint to reduce the service gaps and increase customer satisfaction:

- The company mission should include a focus on customer-orientation.
- The banks should give more focus on *internal marketing and interactive marketing* to ensure the *functional* and *technical quality* of service.
- A strong relationship with existing customers prevents Gap 1 from occurring and companies are more able to understand the changing needs and expectations of their existing customer base.
- Employees have to express solidarity with the customer and have to be aware of customer expectations.
- Training and motivational programmes should be introduced to improve the employee skill.
- Quick Response System (QRS) should be adopted to minimize the service delivery time.
- The banks should adopt modern equipments and modern banking system such on line bank, ATM banking, Mobile banking, etc. to provide better service.
- The public sector's bank can differentiate them by focusing on *reliability*, *resilience*, and *innovativeness* in delivering the service, handling the emergencies, and ensuring the optimal efficiency and effectiveness of the service.
- The bureaucratic relationship between the management and front line personnel should be removed.

The study shows that the service quality of the Private Commercial Banks is satisfactory; still there is a huge gap between customer expectations and employees' perceptions. Besides that, still some clients are not satisfied with the service of this bank. So, it is high time the banks would give proper attention to the problem of employees' unawareness about customer expectations and improve its overall service quality.

- Top management of the banks must have a thorough commitment to service quality.
- The management should look not only at financial performance on a monthly basis, but also service performance.
- The banks have to be more conscious in building customer relationship through proactive and partnership marketing
- The standards of service-quality should be set appropriately high.
- The banks can differentiate their service by designing a better and faster delivery system.
- A well defined system should be developed for monitoring service performance and customer complaints.
- The banks must audit service performance, both their own and competitors on a regular basis.
- The banks should give special attention to "One Stop Service."
- Getting frontline employees to adopt extra-role behaviors and to advocate the interests and image of the firm to consumers, as well as take initiative and engage in conscientious behavior in dealing with customers can be a critical asset in handling complaints.
- Retail banking functions should be more expanded.
- The banks should give more focus on internal marketing (training and motivating employees to serve customers well) and interactive marketing (employees skill in

serving the clients) because the customers judge service not only by its technical quality, but also by its functional quality.

REFERENCES

Alam M.M.D. and Momotaz S.N. (2008), '*Analysis of end users' expectation and perception of service quality of software service providers: An empirical study on Diagnostic Centers in Dhaka City*', Dhaka, Bangladesh.

Amin, M., and Isa, Z., 2008. '*An examination of the relationship between service quality perception and customer satisfaction: A SEM approach towards Malaysian Islamic banking.*' International Journal of Islamic and Middle Eastern Finance and Management, 1(3), pp 191-209.

Brooks, R.F., Lings, I.N. and Botschen, M.A. (1999), "*Internal marketing and customer driven wave fronts*", Service Industries Journal, Vol. 19, No. 4, pp. 49-67.

Chaston, I. (1994), "*Internal customer management and service gaps within the UK manufacturing sector*", International Journal of Operations and Production, Vol. 14, No. 9, pp. 45-56.

Chen, I., A. Gupta and W. Rom. (1994) '*A Study of Price and Quality in Service Operations*', International Journal of Service Industry Management, 5(2), 23-33.

Crosby, P. B. (1979), '*Quality is free: The art of making quality certain.*' New York: New American Library.

Curry, A. (1999), "*Innovation in public service management*", Managing Service Quality, Vol.9, No.3, pp. 180-190.

Edvardsson, B., Larsson, G. and Setterlind, S. (1997), "*Internal service quality and the psychological work environment: an empirical analysis of conceptual interrelatedness*", Service Industries Journal, Vol. 17, No. 2, pp. 252-63.

Ghobadian Abby, Speller Simon & Jones Matthew, (1994) "*Service Quality: Concepts & Models*", International Journal of Quality & Reliability Management, Volume 11 Number 9, pp. 43-66.

Lewis, B.R. and Mitchell, V.W. (1990), "*Defining and measuring the quality of customer service*", Marketing Intelligence & Planning, Vol. 8, No. 6, pp. 11-17.

Lings, I.N. and Brooks, R.F. (1998), "*Implementing and measuring the effectiveness of internal marketing*", Journal of Marketing Management, Vol. 14, pp. 325-51.

Linjander, Veronica and Tore Strandvik (1992),"*The Relationship between Service quality and intentions.*" Pp. 77-98 in proceedings of the 2nd workshop on quality management in services, Jos Lemmink and Paul Kunst (eds).Brussels, Belgium: European Institute for advanced Studies in Management.

Lovelock Christopher, Wirtz Jochen. (2004) "*Service Marketing: People, Technology, Strategy*", 5th edition, Pearson education (Singapore) Pte. Ltd.,pp 406-411.

Luk, Sh.T.K. and Layton, R. (2002), "*Perception Gaps in customer expectations Managers versus service providers and customers*", The Service Industries Journal,Vol.22, No.2, April, pp. 109-128

Parasuraman A. et al, (1985), '*A Conceptual Model of Service Quality and Its Implications for Future Research.*' Journal of Marketing, Fall, pp 41-50.

Parasuraman A., Zeithaml V.A, and Berry L.L., 1988, "*SERVQUAL:A multiple-Item Scale for Measuring consumer Perceptions of Service Quality*", Journal of Retailing 64 (spring 1988), pp 12-40

Parasuraman, A., (2004), "*Assessing and improving service performance for maximum impact: insights from a two-decade- long research journey*", Performance Measurement and Metrics, Vol. 5, No. 2., pp. 45-52.

Powell, T C (1995), "*Total Quality Management as Competitive Advantage: A Review and Empirical Study*", Strategic Management Journal, Vol. 16, pp. 15-37.

Reynoso, J. and Moore, B. (1995), "*Towards the measurement of internal service quality*", International Journal of Service Industry Management, Vol. 6, No. 3, pp. 64-83.

Sahney, S., Banwet, D.K., and Karunes, S. (2004), "*A SERVQUAL and QFD approach to total quality education: A student perspective*", International Journal of Productivity and Performance

Yavas U., Bilgin Z. and Shemwell D. J., 1997, "*Service Quality in the Banking Sector in an Emerging Economy: A Consumer Survey*", International Journal of Bank Marketing, vol. 15. No. 6 pp. 217-223.

Zeithaml, V. A., Berry, L. L., Parasuraman, A., "*Communication and Control Processes in the Delivery of Service Quality*", Journal of Marketing, 52, April, 1998, p. 36. in: Tourism and hospitality management, no. 1., Faculty for Tourism and Hospitality Management Opatija, Opatija.

Green Marketing Practices for Sustainable Business Growth in Bangladesh: A Case Study of Dhaka City

Md. Ruhul Amin[1], Ishtiaque Arif[2], & Mohammad Maksudur Rahman[3]

[1]Lecturer, Department of Public Administration, Comilla University. Comilla, Bangladesh.
[2]Assistant Professor, Business Administration, Southeast University, Dhaka. Bangladesh
[3]Deputy Registrar, Southeast University, Dhaka. Bangladesh.

ABSTRACT

Green marketing is a way to use the environmental benefits of a product or service to promote sales. Many consumers will choose products that do not damage the environment over less environmentally friendly products, even if they cost more. With green marketing, advertisers focus on environmental benefits to sell products such as biodegradable diapers, energy-efficient light bulbs, and environmentally safe detergents. As a Bangladeshi citizens are very much unaware about green marketing which portrait their unconsciousness of environment. Here authors have tried to sketch the problems and prospects of green marketing along with to draw attention of readers' to make them consciousness about the pollution of environment.

Keywords: Green Marketing, Environment, Pollution, Dhaka, Bangladesh.

JEL Classification Code: M30; M31; M39

1 INTRODUCTION

Green marketing concept incorporates a broad range of activities for establishing the consumer rights, protecting the environment and meeting the consumer needs. In the present world consumers are more conscious about their safety of life and want everything would be environment friendly and making the green world. Green marketing battles with deceptive practices, grey marketing, food adulteration and protects consumers from unscrupulous businessman. This concept is already activated all over the world. So Bangladesh would not be out of this. By now, from the Government to different parties, agencies, NGO's and private organizations, all are committed to shoulder the responsibilities. Unfortunately, a majority of people believe that green marketing refers solely to the promotion or advertising of products with environmental characteristics. Terms like Phosphate Free, Recyclable, Refillable, Ozone Friendly, and Environment Friendly are some of the things consumers most often associate with green marketing. While these terms are green marketing claims, in general green marketing is a much broader concept, one that can be applied to consumer goods, industrial goods and even services (May 1991, Ingram and Durst 1989, Troumbis 1991). Since 1970, green marketing concept has been included

with different marketing philosophies, and also arising from one of the concept of Philip Kotler's five marketing management concepts (Societal marketing concept). But this concept has not been practiced properly until 1980's, because, marketers could not match it with the traditional marketing concepts, and even defining green marketing concept was not a simple task. The terminology used in this area has varied, it includes: green marketing, environmental marketing and ecological marketing.

The people of Bangladesh have been living with natural hazards and catastrophe and the infrastructure of Bangladesh is not developed. This country is polluted by many ways like air, water, noise etc. Green Marketing concept will help to protect our country. Our industry will go for customer driven policy and to create demand for green products. Bangladeshi consumers must adopt environmentally sound behaviors to sustain the clean environment. Through such conscious choices (green product), consumers can take steps to protect the earth's natural resources and to prevent further environmental damage of Bangladesh.

2. Objective

The purpose of this paper is to explore the problems and prospects of Green Marketing in Bangladesh. The main reasons for applying the green marketing concept in Bangladesh are that-

- To introduces the term of green marketing.
- To justify Bangladesh's perspective on the platform of Green Marketing.
- To identify some hindrances of green marketing in Dhaka City.
- To analyze the Findings of Different Organizational Activities.

3. Methodology and Scope of the Study

It is the nature of the research problem that should dictate the appropriate research method: sometimes quantification is required, sometimes not. Similarly, Punch (1998) observes that "quantitative questions require quantitative methods to answer them and qualitative questions require qualitative methods to answer them". The major objective of this study is to highlight the areas which have been organized and desired to be organized for making the pollution free environment. Secondary and primary data were helpful for collecting the required information. The secondary sources of data are journals, books, magazines and different organization's past, present activities and the future planning is also included with them. These types of information will help for descriptive research studies. Descriptive research helped for identifying and describing the characteristics in different situation. The secondary data helped for describing the overall situation in Bangladesh for making the green Bangladesh. The primary data are collected by making the focus group interview with the general public and people in civil societies. By the focus group interview, the respondent's feelings, attitudes, ideas and beliefs have been easily collected. The bright ideas for future planning to protect our country also gathered through the interviews.

4. Concept of Green Marketing

A variety of terms are used to capture the essence of green marketing and these range from environmental marketing, eco-friendly marketing, sustainable marketing, ecologically-correct marketing to ecological marketing. Polonsky (1994) defines green marketing as "all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment". In the words of Peattie (1995), green

marketing is "the holistic management process responsible for identifying and satisfying the requirements of customers and society, in a profitable and sustainable way".

The term "green marketing" describes an organization's efforts at designing, promoting, pricing and distributing products that will not harm the environment (Pride and Ferrell, 1993). Green marketing started to play dominance role for consumer's satisfaction when public expressed their demand for green products or services and green life. And then green concept came into prominence in the late 1980's and early 1990's. The word "environmentally preferable" considers – the products and services which would be matched with the environment friendly and from the manufacturing to the packing and selling of the products must have to be protected from deception and unprincipled things. One Study focused on promoting "sustainable marketing", a strategy that deals positively with ecological environment and is sensitive to the needs of future generations in areas including product, price, distribution channel, and promotion (Murphy, 2005). These efforts have been encapsulated by green marketing philosophy, which reflects concern about the effects of manufacturing and consumption on the environment.

Organizations engaged in the marketing of eco-friendly products and ideas include both business and non-business organizations. While business firms make use of green marketing to market green products and services and/or building a green corporate image, non-business firms pursue it as a non-profit activity with a view to identify, develop and promote eco-friendly ideas, products and manufacturing processes/technologies among the consumers, business firms and other organizations.

5. Bangladesh's Perspective – Green Marketing Concept

By location Bangladesh falls in the coastal region. She is going to be worst sufferers due to the impact of fast climate change throughout the globe. The coastal areas of Bangladesh are different from rest of the country because of their unique geo-physical characteristics and different socio-political consequences that often limit people's access to endowed resources and perpetuate risk and vulnerabilities. Bangladesh's coast is the biggest victim to natural disasters and highly affected by climate change with problems including salinity and water logging, soil erosion, flooding and cyclones. The hazards of natural disasters cannot completely be prevented, but the risks and vulnerability can be reduced through increasing capacity. It has been emphasized by the experts that capacity building also depends on the economical condition as well as political commitment of a country, which is why the Concept Green Marketing has become a dire need for this country. The other deep rooted problems like unplanned urbanization, industrialization, motorization etc have been added to the devastating effect of effect of climate change and echo diversity.

6. Hindrances of Green Marketing

7.1. Unplanned Urbanization: Unplanned urbanization has become a powerful threat to environment. Especially, Real estate sectors indicate another factor to deteriorating environment. Presently, this sector maintains a booming position in our country. It's a very profitable business and at the same time, consumer's purchasing power helps maintaining a healthy economy. But, some important stakeholder's mal practices like filling up natural water logged areas, cutting trees, irregular earth-filling, not leaving enough free spaces to grow greens and human etc. resulting catastrophic natural disasters. These are the causes for accidental death too. The Green of Dhaka city is disappearing fast due to the fast growing of unmanaged number of real estate

projects. Negligence to the restrictions of Municipality rules, DAP, RAJUK and disrespect to the Democratic power has left the mal-practioner in safe heaven.

7.2. Lack of Good Governance: Wikipedia terms "Governance" as "the process of decision-making and the process by which decisions are implemented (or not implemented)". "The term governance can apply to corporate, international, national, local governance or to the interactions between other sectors of society." Good Governance can help us position our green products and services to maximize public perception and generate positive top-of-mind publicity. From innovative green marketing strategies to public relations, and sustainable eco-friendly business policies, The Good Governance can be our link to a stronger market perception as a truly Generous Host. For which the practice of good Management is a must. The abilities of the local management to delineate and delegate responsibilities to various organizations and ensuring accurate responding and monitoring of delegating responsibilities can be termed as the decentralized management. Decentralized and well coordinated powerful management is the tool to stop any irregularities. The co-existence of various local government bodies, such as city corporation, pourashava union council, local and development authority (like- RAJUK) and other organizations WASA, DESA, etc. should have been more dedicated to perform their jobs. If, the various organs of local government would have been exercising their authority to follow the rules and regulations, then environment would have been saved from the hands of encroachers. To work in line with environment friendly concepts every developer should take approval of different agencies for a specific project before construction. Approvals are required from the following Governmental departments:

- Civil Aviation
- Ward Commissioners of the specific project site
- Dhaka Water and Sewerage Authority (DWASA)
- DESA / DESCO
- Dhaka Transport Coordination Broad (DTCB)
- Department of Environment (DOE)
- Rajdhani Unnayan Kartipakhya (RAJUK)

Good urban governance can be achieved if harmonization of various organs is ensured. Good urban governance can be a useful mechanism to enhance the legitimacy of the public realm. The requirements for good urban governance are nearly endless, but above all it should basically aim at creating environment friendly planned urban areas.

7.3. Unplanned Industrialization and Motorization: Traffic jam is a common scenario in our country now a day. The excessive use of motor cars has increased the lead level in air of atmosphere at a dangerous state. Not only the travelers but also the dwellers life is at a stake. The industrialization in urban residential areas has made it more difficult. The burnt smoke and poisonous liquids have endangered the lives of all groups in the cities. The use of chemicals in the residential hubs and flow of poisonous liquids through the rivers and canals have not only endangered the lives but also ignored the breath of the environment.

7. Findings and Analysis of Different Organizational Activities

From Government to private organizations, everybody's are becoming more conscious for protecting Bangladesh from detrimental impact on the natural environment.

7.1. Government

Government is the key role player to react and ensure its defense. It should implement all its rules regarding safety of the nation. First of all, the laws which had been provided by the

Government must be maintained strictly by the businessman. Thus governmental attempts to protect consumers from false or misleading claims should theoretically provide consumers with the ability to make more informed decisions. For example, some governments have introduced voluntary curb-side recycling programs, making it easier for consumers to act responsibly. The Government actions can easily protect the consumers and society by implications of green marketing concept. So Government can take different steps like:

1) Impose restriction on the production of harmful goods or by-product items which would be harmful for consumers and society.
2) Ensuring consumer friendly society to practice the ability to evaluate the environmental composition of goods.
3) Ensuring commerce rules in favour of consumer's rights and choices over the products.
4) Ensuring hurdles for wrong practices in the sector of production un-friendly to the environment.

7.2. Bangladesh Poribesh Andolon (BAPA)

Bangladesh Poribesh Andolon (BAPA) was launched in 2000 to create a nation wide, united, and strong civic movement to protect Bangladesh's environment. The environment of Bangladesh is deteriorating fast. Urban air quality is plummeting. Ground water is contaminated. Surface water bodies are getting polluted, encroached, and degraded. Solid, fluid, gaseous, and hazardous wastes are overflowing. Forests and open spaces are disappearing. Noise is increasing. Bio-diversity is vanishing. Health conditions are worsening due to pollution. Unless these processes of degradation are slowed down and reversed, the country's economic, social, cultural, and human progress will be gradually hampered, and Bangladesh will become unlivable in the long-term. In this backdrop, pro-environment forces of Bangladesh gathered at the International Conference on Bangladesh Environment (ICBEN) in January 2000 to discuss Bangladesh's environmental problems and chart out actions for the future. The conference adopted Dhaka Declaration on Bangladesh Environment 2000 and suggested formation of a unified platform for all sincere pro-environment forces of the country to join and work together.

7.2.1. Objectives

BAPA's concrete objectives are:

To stop the process of further environmental degradation in Bangladesh.

To reverse, where possible, the damage that has already been done to the environment.

To build up a nationwide, united, civic movement to achieve the aims of stopping and reversing environmental degradation in Bangladesh.

7.2.2. Achievements

BAPA has already been able to bring about certain positive changes in Bangladesh environment. Working together with other pro-environment forces, BAPA has been successful to-

- Make the government implement removal of two-stroke engine vehicles (TSEV) that were one of the major causes of urban air pollution in Bangladesh.
- Make the government to put an end to the use of leaded gasoline in Bangladesh.
- Initiate a river saving movement in Dhaka, leading to the removal of many structures encroaching rivers in and around Dhaka.
- Organize the International Conference on Regional Cooperation on Transboundary Rivers (ICRCTR) 2004 to draw attention to the likely impact of the proposed Indian River Linking Project (IRLP) and leading to the publication of the volume that is now the most comprehensive source of information and analysis regarding IRLP.

- Adopt a comprehensive Resolution on Rivers that reveals the flaws of the Commercial Approach to rivers and argues for the Ecological Approach to rivers.
- Initiate a country-wide river saving movement through organization of the National Conference on Rivers in 2006.
- Organize the National Conference on Energy and Environment to discuss and adopt the comprehensive Resolution on Energy, as a guide for future sustained campaign on these issues.

7.3. Bangladesh Environmental Lawyers Association (BELA)

BELA was initiated in 1992 by a group of lawyers to address the need for an advocacy group to monitor and pursue the implementation of laws and regulations to protect the environment. Dr. Mohiuddin Farooque was the main initiator of BELA.Over the years, BELA has become a pressure group against environmental violations, and its research has played an important role in popularizing the environment amongst the general public. BELA in Bangladesh include: research into legal documents to minimize the gap between provisions of law and people's expectations, including laws on compensation and on regulating environment and customs on forests and intellectual property rights.

7.3.1. Objectives & Strategies

The broad objective of BELA is to promote environmental justice and contribute towards the development of a sound environmental jurisprudence.

The specific objectives of the organization include:

- Undertake studies on and research into the local, national, & international regulatory regime on environment.
- Undertake legislative advocacy.
- Seek judicial or administrative relief to ensure implementation of existing environmental laws.
- Resolve environmental disputes through count cases, alternative dispute resolution, mediation and other means.
- Develop and core group of environmental activists.

7.3.2. Target Beneficiaries

The beneficiary of BELA's activity is perhaps every human and non-human being. In attempting to protect people's rights and legitimate interests, BELA's efforts aimed from top echelon of the society and governance to the little mass whose lives and livelihood are often forfeited in various disguise and means.

7.4. Consumer Association in Bangladesh (CAB)

Consumers Association of Bangladesh (CAB) a non-government and non-profit organization, established in 1978 at the initiative of a group of Dhaka it's imbued with the idea of consumerism, a movement that already took shape in Europe and America. Since its inception, CAB has been trying to spread the essence of consumerism among poor and low-middle class consumers have attempted to organize activities for the promotion and protection of the rights and interests of the consumers. The major objectives of CAB are to:

- Make consumers aware of their rights and responsibilities.
- Promote consumer education, aiming at raising awareness of consumers against exploitation, and providing them with technical knowledge and support for real protection.
- Focus on consumers' problems and develop a spirit of mutual co-operation and understanding among different groups, associations, institutions, NGOs and government agencies functioning in the interests of the welfare of the people.

- Organize and set-up consumers associations and groups at the districts and thana level.
- Undertake research studies on consumer issues and problems.

8. Conclusion

Above study and scenario depicts the progressive Bangladesh in the long cherishing hope for Green Marketing. Even the consumers also seem to be committed to make a green Bangladesh. Ultimately, green marketing concept is making all consumers aware about their rights to get fresh products; even they are ready to pay more for reducing the adulterated food. Their demand is now Government's positive intervention. Some businesses ha ve been quickly to accept concepts like environmental management systems and waste minimization, and have integrated environmental issues into all organizational activities. Progressive communities and civil societies are now taking several environmental campaigns, including 'Buriganga Bachao Andolon', 'Campaign against Air Pollution', and 'Campaign against Polythene' was conducted by BAPA. Some of them achieved notable success. BAPA also organized 'Sundarban Bachao Conference' and 'Environmental Health Conference'. In automobile segments are also aware to reduce the carbon monoxide from the environment by starting electric vehicles and Compressed Natural Gas (CNG) conversion procedure in two-wheeler, three-wheeler transportations which are environment – friendly in different organizations. The Polythene Act in 2001 has also taken an effective movement to make pollution free environment. Bangladesh Environmental Conservation Act was enacted in 1995. As per the Act"Environmental Clearance Certification" is required for the establishment of any new industries from the Director General of the Department of Environment. Inception of such policies has strengthened the movement of Green Marketing in Bangladesh.

Bibliography

Ingram, C. Denise and Patrick B. Durst. 1989. "Nature-Oriented Tour Operators: Travel to Developing Countries." Journal of Travel Research 28 (2): 11-18

Kotler, P. 2003, Marketing Management, Prentice Hall of India, New Delhi.

May, V. 1991. "Tourism, Environment and Development: Values, Sustainability and Stewardship." Tourism Management 12 (2): 112-118.

Murphy, P. E. (2005). Sustainable Marketing, Business and Professional Ethics Journal, 24(1/2), pp. 199-223.

Peattie, K. 1995. *Green marketing*. M and E Handbooks. London: Pitman Publishing.

Polonsky, M. J. 1994. An Introduction to Green Marketing. *Electronic Green Journal*, 1(2). http://gopher. nidaho.edu/1/libgopher/hibrany/egj.

Pride, M.W. and Ferrell C.O. (1995), Marketing Concepts and Strategies, (9th ed.), Houghton Mifflin Company.

Punch, K.F. (1998) Introduction to Social Research: Quantitative and Qualitative Approaches. London: Sage.

Troumbis, A. Y. 1991. "Environmental Labeling on Services: The Case of Tourism." Ekistics (348/349): 167-173.

Impacts of Monetary Policy on Inflation in Bangladesh

Mohammad Nayeem Abdullah[1], Kamruddin Parvez[2], & Rahat Bari Tooheen[3]

[1&2]Lecturer, School of Business, Independent University, Bangladesh (IUB) Chittagong, Bangladesh
[3]Lecturer, School of Environmental Science and Management, Independent University, Bangladesh (IUB) Chittagong, Bangladesh

ABSTRACT

The objective of this paper is to analyze and discuss the impacts of monetary policy on Bangladesh inflation, identify the major drawbacks of the policies in minimizing the inflation rate and suggest policy recommendations on some key issues of Bangladesh inflation. To estimate the effects of the monetary policy in Bangladesh, at first the impact of different monetary policy tools used by the "Central Banks" of the developed countries have been reviewed. Next, the impact of the monetary policy of Bangladesh Bank and government have been analyzed for which the data on money supply, growth of the GDP, changes in the price level, and changes in the unemployment rate have been quantitatively analyzed. We mainly used Consumer Price Index to determine the level on inflation in Bangladesh. Moreover, our study focuses on data collected from the 1950-2012, mainly focusing our study from the period of 2000-2012 as major transitions have been observed in the economy during the 12 years. We have further analyzed whether there is any correlation between (i) inflation rates and money supply, and (ii) inflation rates and growth of GDP. On the basis of the outcome of the qualitative and quantitative analysis, in the end findings and conclusion have been drawn. We have found the correlation, the impacts of monetary policy and inflation, their drawbacks and possible solutions such as independence of the monetary policy from the fiscal policy and enhancing the transparency, communication and signaling effect of policy moves, keeping the broad money in line with the estimated real GDP growth, borrowing from non-bank sources, and control money supply through various open market operations. Due to lack of access to sufficient data, some of our work is based on hypothesis and models. So some data vary according to the model being used. Lastly, even though, many works have been done from the perspective of developed and other developing countries, much work has not been carried out to establish the relationship between monetary policy and inflation in Bangladesh.

Keywords: Monetary Policy, Inflation, Bangladesh

GEL Classification Code: E31; E42; E50

1. INTRODUCTION

Monetary policy in Bangladesh is equally important as in developed countries. Monetary policy basically targets price stability. For any government, one of the most urgent economic issues is to stabilize the price and maintain a price level within the limits of purchasing power of the common people. The notion that monetary policy should affect inflation dynamics is an old one, dating at least to Friedman's dictum that inflation is always a monetary phenomenon (1970). In his famous "Critique," Lucas (1975) showed how changes in monetary policy could, in principle, affect inflation dynamics. However, Lucas considered only very stylized monetary policies. There are several ways in which monetary policy may have changed over time. Ball, Mankiw, and Romer (1988) have argued that changes in monetary policy may lead to changes in the frequency of price adjustment. The New Open Economy Macroeconomics (NOEM) literature, pioneered by Obstfeld and Rogoff (1995), suggests that monetary policy affects the real economy through the interest rate and exchange rate channels. In a recent paper Maroney, Hassan, Basher, and Isik (2004) found that monetary policy plays a more important role than fiscal policy in enhancing the economic growth of Bangladesh. Bhuiyan (2012) found that a central bank that is transparent about inflation rate wants to maintain inflation and takes policy measures to lower inflation expectations. Yet, high inflation is a long-standing problem in Bangladesh. The historical record of conducting monetary policy in Bangladesh economy shows that the Central Bank has switched its operating targets many times. "The central bank can best contribute to high growth and financial stability by providing a stable macroeconomic environment through price stability" (Prasad 2010).

Monetary policy is concerned with the measures taken to control the supply of money, the cost and availability of credit. Like many developing countries, the primary focus of monetary policies in Bangladesh is to obtain high sustainable growth. However, to achieve and maintain a higher growth rate, policy makers need to understand the determinants of growth as well as how policies affect growth. In a developing country like ours the monetary policy has been effectively used as a tool for overcoming depression and inflation. Along with economic growth monetary policy also has to ensure price stability, as excessive inflation has an adverse distribution effect and hinders economic development.

Inflation is one of the most important macroeconomic variables in any economy for determining the monetary and fiscal policies of the government. It is measured by CPI. Using the data from January 2007 to October 2011, we observed that inflation movement in Bangladesh has been cyclic. There are many opinions regarding the proper reasons for inflation. Some researchers think that agricultural bottlenecks and successive balance of payment deficits are responsible for inflation. Another group thinks that expansionary monetary policy is the main cause of inflation in Bangladesh. Whatever the reasons for inflation and its impact on the economy of Bangladesh, this paper tries to determine the impacts of monetary policy on inflation.

In this paper, at first we discuss about some of the past studies that have been conducted on monetary policy and inflation in section 2. The remainder of the paper is organized as follows: section 3 provides the objectives of this paper, and section 4 provides the data sources and methodology used in our study. In section 5 we have presented the findings of each objective and lastly, in section 6, we draw the conclusions of our study.

2. LITERATURE REVIEW

There are several theories and empirical studies have been conducted on monetary policy globally over the past decades. Money supply and its prudent management and control

through the monetary policy pursued by the central bank of a country can play a significant role in the managing and controlling of inflation in that country. The relationship between inflation and monetary policy remains controversial in both theory and empirical findings. Several earlier works on monetary policy failed to establish any meaningful relationship between inflation and monetary policy.

The monetarist approach, that money supply growth causes inflation, can be tested by observing the correlation between the rate of inflation and the rate of monetary growth. Causality can be determined by statistical analysis and institutional evidence. The direction of causality can be detected by examining the timing of the relationship between changes in monetary growth and changes in inflation. Monetarists Cagan (1956) and Friedman (1956, 1975) explained money supply as one of the major causes of inflation. The economists began to believe that increasing the monetary supply at a low but constant rate is the best way of maintaining low inflation and growth of the economy. Sunkel (1960) said that from a structuralist viewpoint, budget deficits and consequent expansion in money supply are not autonomous while the necessity of the essential commodities in the domestic market goes up, import is a must. As a result, rising imports and devaluation generate domestic inflation, price level spirals and borrowing through central bank increases the money supply causing a further rise in the price level. But tight monetary policy in this regard may cause scarcity in the domestic need of essential commodities. So, the some degree of control of monetary authorities is desirable. Friedman (1968) studied the role of monetary policy in the U.S economy and suggested that by setting a steady course, that course one of steady but moderate growth in the quantity of money, the monetary authority could make a major contribution to promoting economic stability with avoidance of either inflation or deflation of prices. It was found that in the developed nation's money supply changes precede price changes, which precede real production changes, lending support to the view that money supply changes are more likely to lead to inflation in this subsample (Cagan 1956; Deaver 1970; and Vogel 1974). He also mentioned that price changes are likely to be followed by money supply changes in less-developed economies. Another interesting finding was that generally the relationship between money supply changes and real production changes is positive for less advanced economies, but negative or negligible for the advanced. This later finding is suggestive that mild inflation may induce real economic growth.

The evidence on developing countries supports the argument that governments should not depend on expansionary monetary developments to induce growth. They will be retarding growth while at the same time reducing the welfare of the public by the deterioration of real balances by the induced inflation. Evidence on the inflationary impact of deficits through their impact on money supply growth include those by, for example, Aghevli and Khan (1978) in the case of Columbia, Indonesia, Dominican Republic, Brazil and Thailand. Rwegasira (1974), in a study which linked deficits with rising prices, concluded that government expansionary finance which characterized the economy from 1963-72, had been one of the sources of rising prices. He pointed that other important sources, like inelasticity in agriculture and falling import capacity, joined deficit financing in causing upward pressure on the general price level. A combination of declining productivity, declining production and inefficiency accompanied by excessive money supply in the economy seems to be important in the process of inflation according to Malima (1980), implying that an increase in the rate of growth of output and a reduction in the rate of money supply growth could be a solution to inflation.

Mckinnon, White and Davidson's (1983) non nested test of model selection suggested that real permanent income and the expected rate of inflation have been found to be important variables, both theoretically and statistically, in the money supply function. But this study does

not show any direct relation of monetary policy with inflation. Gordon (1984) suggests that if the monetary authority tries to implement a rule to stabilize the interest rates by changing the money supply through open market operations, then the monetary base becomes endogenous to the determinants of the money demand functions. A dual relationship may therefore exist between the monetary base and the arguments of money demand functions. Chowdhury and Ahmed (1986) and Chowdhury, Dao, (1995) constructed a recursive VAR model to estimate the dynamic effects of monetary policy shocks on key macroeconomic variables of Bangladesh. However, since the recursive VAR approach is unable to capture simultaneous interactions among the monetary policy variable and other variables in the model, the recursive model identified erroneous policy shocks and hence generate misleading responses of macroeconomic variables. In Bangladesh, the interest rate is not the major target variable of the monetary authority. Interest rates are institutionally determined and in many cases are not responsive to money market conditions. Changes in the money supply in Bangladesh mainly originate from changes in reserve money (Hossain, 1988).

Maroney, Hassan, Basher, and Isik (2004) found that within the context of Bangladesh, monetary policy is more important than fiscal policy. As significant amounts of development expenditures for Bangladesh comes from foreign aid and grants, it is also argued that this aid must be channeled to productive activities so that it contributes to economic growth. Mansur (2007) argued in their paper that a well-defined and stable money demand function is a necessary condition for monetary policy to have predictable effect on the macroeconomic variables. Their paper applied the advanced technique of co-integration to estimate the demand for money balances in the case of Bangladesh and evaluates stability of the equations. The analysis shows that there exist a long-run relationship between real money, real income, inflation, and interest rate that remains stable over time. The long-run properties emphasize that both inflation and interest rate have negative effects on real money demand whereas real income has positive effects. Roberts (2006) considered the effects of changes in U.S policy on expectations formation, holding fixed the other behavioral relationships in the economy and argued that changes in policy can affect the reduced-form relationship between inflation and economic activity by reducing the signal content of economic slack for future inflation. The results suggest that changes in monetary policy can account for most or all of the change in the inflation level. Subrata, Ghatak, Willy Spanjers, (2007) discussed the potential benefits of monetary policy rules for transition economies (TEs). It is argued that the nominal interest rate may fail to be the appropriate instrument in such rules. One reason is the amount of non-calculable political and economic risk inherent in TEs. These risks lead to a significant and volatile-ambiguity premium in the interest rate over and above the normal risk premium, which makes the real equilibrium interest rate difficult to measure. Ambiguity of the public regarding the monetary policy leads to an ambiguity premium on inflation. Reserve Bank of India's (RBI) monetary policy strategy is still guided by the multiple objectives of price stability, growth and financial stability, with relative weights depending upon evolving domestic and global macroeconomic and financial conditions. Cavoli, Ramkishen, and Rajan (2008) conducted a study on India's monetary policy actions in a broader context by discussing whether the Reserve Bank of India (RBI) should shift from its current policy of heavily managed exchange rates to one involving greater currency flexibility, through analytical, empirical and policy dimensions. The recent history of exchange rate centered policy in India was studied. There were some evidence to suggest that the monetary policy rule tends to react to current inflation, but there is no evidence that it reacts to forecasts of inflation. Additionally, interest rates do not react at all to the exchange rate. Bhuiyan (2009) said that monetary policy is a key tool to influence the economic growth of a country. Therefore, it is important to understand the channel through

which a monetary policy action influences the real economy as well as the time it takes for the policy action to affect economic activity. Recent Monetary Policy Statement of Bangladesh Bank (July 2009) by Bhattacharya and Khan said that traditional fiscal policy solutions were useful in confronting unemployment by increasing spending and cutting taxes, counter-acting inflation entailed reducing spending or raising taxes. The growing importance of monetary policy in economic stabilization efforts may reflect both political and economic realities. Monetary and fiscal policies differ in the speed with which each takes effect as the time lags are variable. Monetary policy is flexible and emergency rate changes can be made.

Gupta and Kabundi (2010) seek to assess the impact of monetary policy on house price inflation for the nine census divisions of the US economy. The results of this investigation show that house price inflation responds negatively to a positive monetary policy shock, suggesting that the framework does not experience the widely observed price puzzle encountered while analyzing monetary policy shocks with standard sized VARs but the responses are heterogeneous across the census divisions. Ali and Islam, (2010) estimated empirically the money supply function for Bangladesh and then examined how supply of money can be managed better to improve the economy of Bangladesh. They concluded that understanding the money supply process is critical for a better management of the monetary sector of the country including the management of interest rate and credit flows, and in controlling inflation, unemployment, and economic growth. Islam (2010) suggests that, the behaviour of money supply and its determinant (Money Multiplier) have a greater impact on monetary policy. Basically , behavior of the determinants shows that net foreign assets, net domestic assets, interest rate spread, government borrowing have a greater impact on money supply process in Bangladesh. It is to be accentuated that net foreign assets and net government borrowing have a greater impact in changing reserve money which in turn has an effect on inflation. Cristadoro & Veronese, (2011) documented the unwinding of inflation expectations in India. The evidence gathered led to the conclusion that both the monetary policy strategy and framework of the Reserve Bank of India would benefit from further evolution in the direction of a precisely defined and overarching objective (price stability) and suggest that embracing a flexible inflation targeting approach is a possible solution. Antonio's, (2012) study shows a link between money growth and inflation in the euro area over a period of forty years by using the wavelets analysis and the study also suggests that the link presents both frequency and time-varying features. Reschreiter and Andreas (2011) suggest through empirical analysis that a constant mean of the real interest rate that shifts with the monetary policy regime change to inflation targeting. The mean-reverting level of the real interest rate has with the change in monetary policy to inflation targeting in U.K. Biswas, Winckler and Paul (2011) said that monetary policy influences the price level, growth of the economy, and employment generation. To estimate the effects of the monetary policy in Bangladesh, at first the functions and influences of different monetary policy tools used by the "central banks" of the developed countries were reviewed. Next, the impact of the monetary policy of Bangladesh Bank and government was analyzed at which the data on money supply, growth of the GDP, change in the price level, and change in the unemployment rate was quantitatively analyzed. Bhuiyan (2012) developed and found that the liquidity effect and the exchange-rate effect of the monetary policy shock are realized immediately, while industrial production responds with a lag of over half a year, and the inflation rate responds with a lag of more than one year.

Although many studies have been carried out to establish the relationship between monetary policy and inflation, very few studies have been conducted for Bangladesh.

3. Objectives

The objective of this paper is to analyze and discuss the impacts of monetary policy on Bangladesh inflation, identify the major drawbacks of the policies in minimizing the inflation rate and suggest policy recommendations on some key issues of the Bangladesh inflation, identify major challenges and suggest policy recommendations

The Objectives of the study are listed below:

- Discussion on the correlation between monetary policy and inflation
- Fluctuation of inflation rates over time in Bangladesh and its present condition due to monetary policies
- Impacts of monetary policy on inflation and the consequences
- To determine appropriate policies to control inflation rates in Bangladesh

4. Methodology

Our study is mainly based on secondary information. We have used the secondary data collected mainly from journals, books, previous studies and websites to analyze the past and prevailing monetary policies and inflation patterns in Bangladesh and also considered cross-country analysis. The study is made based on the analysis of secondary data obtained from the Bangladesh Bank and Bangladesh Bureau of Statistics (BBS). During the analysis, publications of Bangladesh Bank, its different issues of Monetary Policy Statements (MPS), Monthly Economic Trend, Bangladesh Bank website, etc were consulted. Tables as well as graphical presentation of relevant data were used to show its trends and outcomes in this study. Basically this study was confined to the behavior and trend analysis among the components of money supply. Suitable data have been extracted, organized, analyzed, illustrated and interpreted in the report with proper reasoning, analytical judgment, clarification and explanation.

Measures of inflation:

In Bangladesh, inflation is generally measured using CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy. The prevailing view in mainstream economics is that inflation is caused by the interaction of the supply of money with output and interest rates. The inflation rate is the percentage rate of change of a price index over time. For instance, in January 2010, the Bangladesh Consumer Price Index was 324.21, and in January 2011 it was 350.54. The formula for calculating the annual percentage rate inflation in the CPI over the course of 2010 is:

(350.54 - 324.21) / 324.21= 0.103 or 10.3%.

The resulting inflation rate for the CPI in this one year period is 10.3%, meaning the general level of prices for typical Bangladeshi consumers rose by 10.3% in 2010.

Table: General, Food & Non-food Inflation Rate in Bangladesh during FY 2001 to FY2011

Year		General (%)	Food (%)	Non-food (%)
Point to Point		Monthly Moving Average	Monthly Moving Average	Monthly Moving Average
2000	-	1.94	1.39	3.04
2001	-	2.79	1.63	4.61
2002	3.58	2.79	1.63	4.61
2003	5.03	4.38	3.46	5.66
2004	5.64	5.83	6.92	4.37
2005	7.35	6.48	7.91	4.33
2006	7.54	7.16	7.76	6.40

2007	9.20	7.20	8.11	5.90
2008	10.16	10.06	11.43	7.35
2009	4.60	5.51	7.9	4.2
2010	7.61	7.52	9.9	3.9
2011	11.97	9.76	13.90	4.32

Source: Bangladesh Bureau of Statistics

Rate of Inflation (as measured by CPI, base 1995-96)	October, 2012	September, 2012	October, 2011
Point to point	7.22%	7.39%	11.42%
Monthly Average (Twelve Month)	9.33%	9.69%	10.18%

Source: BBS (Bangladesh Bureau of Statistics)

5.1 Findings of Objective 1

Correlation between monetary policy and inflation:

Traditionally, it is believed that inflation is ultimately a monetary phenomenon, i.e., sustained inflation is the outcome of excessive money supply. Although it is the general wisdom that monetary policy tools are of immediate influence in controlling inflation. However, contemporary evidence amply illustrates that monetary policy cannot deal well with the inflationary impacts of external shocks such as the recent international price of oil & related energy products. Many central banks as a consequence focus on the core inflation which is typically constructed by subtracting the most volatile components (e.g. food & energy prices, indirect taxes, etc.) from the consumer price index (CPI). As a policy goal, core inflation may be a more credible target then CPI inflation. Then monetary policy surely requires independence. Various studies show that a higher degree of monetary-policy independence is associated with a lower inflation across the globe.

A significant body of literature has argued that general price level determination is essentially a fiscal, rather than a monetary, phenomenon (Cochrane, 1999). In the new view, an independent central bank is not sufficient to ensure price stability. Price stability requires not only an appropriate monetary policy, but also an appropriate fiscal policy. However, some economists think that today the primary tool for controlling inflation is monetary policy. A low positive inflation is usually targeted, as deflationary conditions are seen as dangerous for the health of the economy.

According to the famous monetarist economist Milton Friedman, "Inflation is always and everywhere a monetary phenomenon". Money supply plays a large role in inflation. Money supply growth in line with economic growth will result in stable prices; money supply growth above economic growth will lead to increases in prices. An increase in money supply involves increasing the amount of money in circulation. This can come about by the central bank decreasing interest rates or by increasing the amount of credit commercial banks can offer. Either way, people are encouraged to borrow more and have more money to spend. When consumer spending increases, there is a greater demand for goods/services than there is supply, and therefore prices rise. If the Central Bank does not control the money

supply adequately, it may actually grow at a rate faster than that of the potential output in the economy, or real GDP. The belief is that this will drive up prices and hence, inflation.

Following the pioneering work by Obstfeld and Rogoff (1995), a number of open-economy monetary transmission models, such as those by Chari, Kehoe, and McGrattan (2002) and Galı and Monacelli (2004), made contributions to the NOEM literature. These models imply that monetary policy affects the real economy through the interest rate and exchange rate channels. For example, following a contractionary monetary policy shock, the interest rate rises. This causes an inflow of capital into the country from around the world, leading to an appreciation of domestic currency. The appreciation of domestic currency increases prices of home products relative to foreign ones, leading to a decline in net exports. The rise in the interest rate also increases the cost of borrowing and thus tends to dampen the demand for interest-sensitive consumption and investment expenditures. Therefore, the contractionary policy shock leads to a reduction in aggregate demand. Over short periods of time, since output is determined by aggregate demand, the fall in aggregate demand causes a fall in aggregate output. With a given underlying growth rate of potential output, the reduction in actual output implies a negative output gap. While this negative output gap might continue for a while, eventually the economic slack leads to a fall in wages and prices of other inputs. Finally, this reduction in firms' costs of production leads to a reduction in the price of output, that is, to a low inflation rate in the economy. Therefore, theoretically, while the effects of the policy shock on interest rates and exchange rates are realized immediately, this effect on the level of output is realized with a lag, and on the price level with further a lag.

For example, Bhuiyan and Lucas (2007), employing a recursive VAR model, found an appreciation of the home currency due to a contractionary monetary policy shock is inconsistent with what we expect from a contractionary monetary policy shock. They reported a decline in inflation for few quarters after an initial increase. The decline in inflation resulting from an expansionary policy shock is known as the price puzzle in the literature. Furthermore, a depreciation of exchange rate translates into a rise in the cost of imported commodities by making foreign goods more expensive, and thus induces an increase in the domestic price level. There is a close association between exchange rate fluctuations and inflation.

According to the studies by Fischer (1983, 1993), and Bruno and Easterly (1998), inflation has a negative effect on economic growth, thus monetary policy should aim at achieving a low level of inflation. This relationship is based on the actions of the Central Bank, which typically responds to increases in inflation by raising the interest rate and to decreases in inflation by lowering interest rates. Low interest rates correspond with a high level of money supply and allow for more investment in big business and new ideas which eventually leads to unsustainable levels of inflation as cheap money is available. The credit crisis of 2007 is a very good example here. If inflation is rising, then the Central Bank considers the demand for goods and services to be too high, so it tries to slow down spending by raising real interest rates. Conversely, if inflation is falling, then the Central Bank considers the demand for goods and services to be too low, so it tries to encourage more spending by lowering real interest.

Central banks routinely state monetary policies in terms of interest rates. For example, in October 2001, the European Central Bank stated that it had not changed interest rates recently because it considered current rates "consistent with the maintenance of price stability over the medium term" (ECB 2001, p. 5). In May 2001, Brazil's central bank increased interest rates because it was worried about mounting inflationary pressure. Another view, which follows from the Fisher equation, is that money and interest rates are positively related: increasing interest rates requires an increase in the rate on money growth. The Fisher equation states that the nominal interest rate equals the real interest rate plus the expected rate of inflation. If monetary policy does not affect the real interest rate (and errors

in inflation expectations are ignored), then the Fisher equation implies that higher nominal interest rates are associated with higher rates of inflation. Since in the long run high inflation rates are associated with high money growth rates, the Fisher equation suggests that an increase in interest rates requires an increase in the money growth rate.

Wages and prices will begin to rise at faster rates if monetary policy stimulates aggregate demand enough to push labor and capital markets beyond their long-run capacities. In fact, a monetary policy that persistently attempts to keep short-term real rates low will lead eventually to higher inflation and higher nominal interest rates, with no permanent increases in the growth of output or decreases in unemployment. In the long run, output and employment cannot be set by monetary policy. In other words, while there is a trade-off between higher inflation and lower unemployment in the short run, the trade-off disappears in the long run. Policy also affects inflation directly through people's expectations about future inflation. For example, suppose the Central Bank eases monetary policy. If consumers and business people figure that it will mean higher inflation in the future, they'll ask for bigger increases in wages and prices. That itself will raise inflation without big changes in employment and output.

Bhuiyan (2012) found that a central bank that is transparent about the inflation rate it wants to maintain and takes policy measures to lower inflation expectations, becomes successful in controlling inflation. Central Banks in developing countries can also attempt to control inflation by measuring inflationary expectations and taking policy actions to lower these expectations. In addition, inflationary expectations can also be used as inputs to the monetary policy function in order to correctly identify exogenous policy shocks, which in turn can be used to estimate more precise impulse responses of macroeconomic variables. However, to my knowledge, most central banks in developing countries do not employ any economic model to estimate expected inflation nor do they have any explicit information about future inflation, except the forecast of inflation made by professional forecasters. Although Bangladesh Bank mentions that it conducts monetary policy by targeting money supply in order to influence the CPI inflation, the Bank is yet to develop any methodology to forecast future inflation.

Since a key objective of Bangladesh Bank is to control inflation, and the Bank can influence inflation only with a lag, it is important for an econometrician to use inflationary expectations as inputs to the monetary policy reaction function in order to correctly identify exogenous monetary policy shocks.

5.2 Findings of Objective 2

Fluctuation of Inflation Rates over Time in Bangladesh and Its Present Condition due to monetary policies

Historical records have shown that inflation have increase over the time with the change in monetary policy. Using the data from January 2007 to October 2011, we can say that inflation movement in Bangladesh has been cyclic. There was a sharp increase, which almost reached double-digit level during October-November 2007. After that it had been relatively stable throughout the year 2008. But after that there was a sharp decline from end of 2008 through January 2009. Again in January 2009, it increased sharply but did not touch the double-digit level. In 2011, it again reached the double digital level. The inflation rate in Bangladesh was recorded at 7.39 percent in September of 2012. Historically, from 2001 until 2012, Bangladesh Inflation Rate averaged 8.26 Percent reaching an all time high of 11.97 Percent in September of 2011 and a record low of 1.66 Percent in June of 2001.

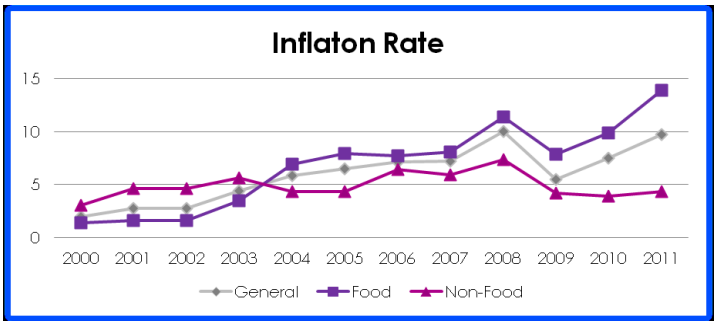
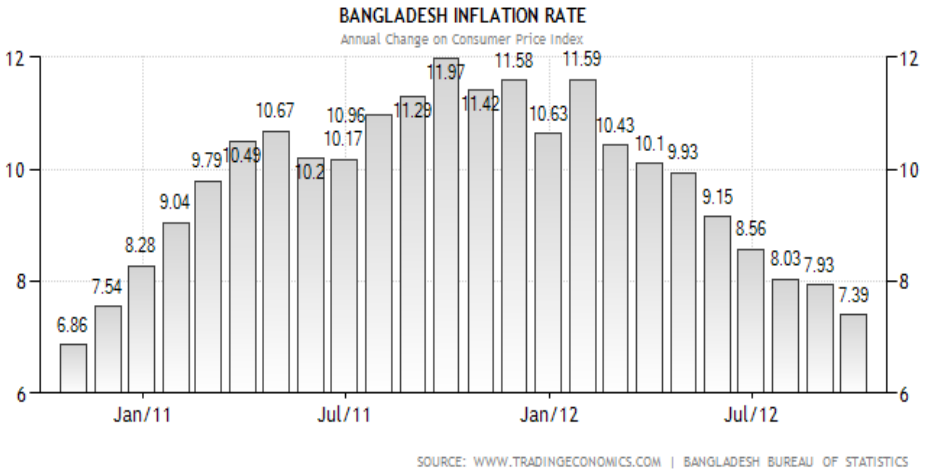


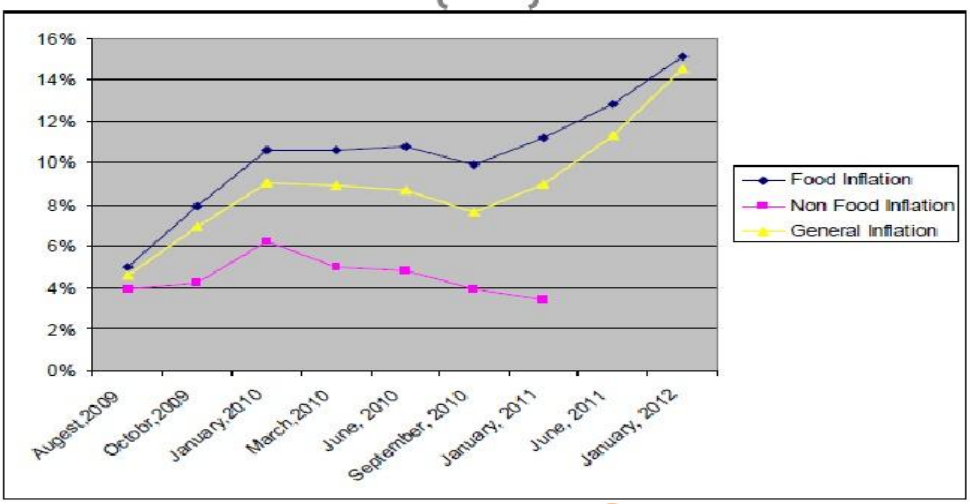
Figure: Trend of Inflation (general, food, non-food) in Bangladesh Source: Bangladesh Bureau of Statistics

Inflation as measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency. Bangladesh is considered as a developing economy which has recorded GDP growth above 5% during the last few years.

The inflationary situation in Bangladesh is on the rising trend, especially since August 2009, primarily owing to the increase in food prices. The food price hike has accelerated the general inflation rate in the country. Food inflation leaves a harmful impact on the purchasing power when the per capita GDP does not correspond with inflation. From August 2009 to June2010, the food inflation has risen by 5.7 percent whereas GDP growth rate has fallen by 0.1 percent, indicating that the purchasing power of the people shrunk drastically. Food inflation is higher in rural areas than in urban areas. Food inflation in rural areas reached near 11 percent, which is more difficult for the country side population to cope with. Rural food inflation increased to 10.51 percent in September'10, which was 9.95 percent in August, while urban food inflation in September declined to 7.95 percent against 8.95 percent in August

The Inflation; GDP deflator (annual %) in Bangladesh was last reported at 6.33 in 2011, according to a World Bank report published in 2012. This page includes a historical data chart, news and forecasts for Inflation; GDP deflator (annual %) in Bangladesh.





Source: Bangladesh Bureau of Statistics

In 1991 the lending rate was 14.99 which was high during 1992 but then it started to be reduced at 14.39 (1993) and 12.22 at 1995. With the flexible use of the monetary instruments, broad money growth (Money Supply) was brought down from high rates of growth (14.1 percent) in the mid-1992to 10.6 per cent in June 1993 to reduce the rate of inflation. In the year 1995 government liberalized Credit to the private sectors in fiscal year1995 by reducing lending rates including those in the three selected sectors of agriculture, exports, and small and cottage Industries had to be restrained due to the rise in price levels. For this reason inflation rate has increased. Higher money supply growth and lower deposit rate in FY95 contributed to the comparatively higher inflation rates in 1995. In 1996 the lending rate was 13.41 which were accelerated to 14.16 in 1999. Supply shortages in the rural areas originating from political instability in FY96 and disruption due to floods in 1998 caused serious shortfall of food and also hampered all other agricultural production, which ultimately caused higher inflation rates in1996, 1998 & 1999. Larger depreciation of the exchange rate has accelerated the inflation rate 2.79(2002) to 4.38 (2004). In 2001 the lending rate was 13.75 which were lowered to 10.93 in 2005. Exchange rate might have played a significant role in causing inflation in 2005-2006 because of the introduction of flexible exchange rate regime since May 2003. A higher growth of money supply (13.84 at 2004 to 19.51 at 2006) added a lot to inflation in 2005-2006. In line with global trends, Bangladesh also experienced rising inflation with the 12-month average CPI inflation touching 9.94 percent in June 2008. In the fiscal year 2009 and 2010, global oil price shifted upward dramatically so fast that the price of fuel & power has driven very sharp impact on our economy by increasing the price of Industrial product and reduces the output of industry. Though our government has taken needed initiatives to minimize the inflation rate but they have failed up to the expectation.

5.3 Findings of Objective 3

Impacts of monetary policy on inflation and the consequences:

Monetary policy has positive and negative impacts on inflation. Middle class people are turning into lower middle class ones and the latter in turn joining the ranks of the poor. The poor are turning poorer from living costs outpacing earnings and buying powers of non-affluent sections

of people decreasing dramatically from the lower purchasing power of the currency as such or the lowered value of their savings. We can say that inflation also directly lowers living standard. Because of inflation people enjoy same amount of product at higher price. An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services.

The effect of inflation is not distributed evenly in the economy, and as a consequence there are hidden costs to some and benefits to others from this decrease in the purchasing power of money.

Positive effects:

Labor-market adjustments: Nominal wages are slow to adjust downwards. This can lead to prolonged disequilibrium and high unemployment in the labor market. Since inflation would lower the real wage if nominal wages are kept constant, Keynesians argue that some inflation is good for the economy, as it would allow labor markets to reach equilibrium faster.

Instability with Deflation: Economist Tsaing noted that once substantial deflation is expected, two important effects will appear; both a result of money holding substituting for lending as a vehicle for saving. The first was that continually falling prices and the resulting incentive to hoard money will cause instability resulting from the likely increasing fear, while money hoards grow in value, that the value of those hoards are at risk, as people realize that a movement to trade those money hoards for real goods and assets will quickly drive those prices up. Any movement to spend those hoards once started would become a tremendous avalanche, which could rampage for along time before it would spend itself. Thus, a regime of long-term deflation is likely to be interrupted by periodic spikes of rapid inflation and consequential economic disruptions. Moderate and stable inflation would avoid such as swing of price movements.

Financial Market Inefficiency with Deflation: The second effect noted by Tsaing is that when savers have substituted money holding for lending on financial markets, the role of those markets in channeling savings into investment is undermined. With nominal interest rates driven to zero, or near zero, from the competition with a high return money asset, there would be no price mechanism in whatever is left of those markets. With financial markets effectively euthanized, the remaining goods and physical asset prices would move in perverse directions. For example, an increased desire to save could not push interest rates further down (and thereby stimulate investment) but would instead cause additional money hoarding, driving consumer prices further down and making investment in consumer goods production thereby less attractive. Moderate inflation, once its expectation is incorporated into nominal interest rates, would give those interest rates room to go both up and down in response to shifting investment opportunities, or savers' preferences, and thus allow financial markets to function in a more normal fashion.

Negative effect:

High or unpredictable inflation rates are regarded as harmful to an overall economy. They add inefficiencies in the market, and make it difficult for companies to budget or plan long-term. Inflation can act as a drag on productivity as companies are forced to shift resources away from products and services in order to focus on profit and losses from currency inflation. Uncertainty about the future purchasing power of money discourages investment and saving. And inflation can impose hidden tax increases, as inflated earnings push tax payers into higher income tax rates unless the tax brackets are indexed to inflation.

With high inflation, purchasing power is redistributed from those on fixed nominal incomes, such as some pensioners whose pensions are not indexed to the price level, towards those with variable incomes whose earnings may better keep pace with the inflation. This redistribution of purchasing power will also occur between international trading partners. Where fixed exchange rates are imposed, higher inflation in one economy than another will

cause the first economy's exports to become more expensive and affect the balance of trade. There can also be negative impacts to trade from an increased instability in currency exchange prices caused by unpredictable inflation.

Hoarding: People buy durable and/or non-perishable commodities and other goods as stores of wealth, to avoid the losses expected from the declining purchasing power of money, creating shortages of the hoarded goods.

Allocation inefficiency: A change in the supply or demand for a good will normally cause its relative price to change, signaling to buyers and sellers that they should re-allocate resources in response to the new market conditions. But when prices are constantly changing due to inflation, price changes due to genuine relative price signals are difficult to distinguish from price changes due to general inflation, so agents are slow to respond to them. The result is a loss of allocation efficiency.

Menu change: With high inflation, firms must change their prices often in order to keep up with economy-wide changes. But often changing prices is itself a costly activity whether explicitly, as with the need to print new menus, or implicitly.

Business Cycle: Inflation sets off the business cycle. Some economists hold this to be the most damaging effect of inflation. Artificially low interest rates and the associated increase in the money supply lead to reckless, speculative borrowing, resulting in clusters of malinvestments, which eventually have to be liquidated as they become unsustainable.

Shoe leather: High inflation increases the opportunity cost of holding cash balances and can induce people to hold a greater portion of their assets in interest paying accounts. However, since cash is still needed in order to carry out transactions this means that more "trips to the bank" are necessary in order to make withdrawals, proverbially wearing out the "shoe leather" with each trip.

5.4 Findings of Objective 4

To Determine Appropriate Policies To Control Inflation Rates in Bangladesh

There are a number of methods that have been suggested to control inflation. Central banks can affect inflation to a significant extent through setting interest rates and through other operations. High interest rates and slow growth of the money supply are the traditional ways through which central banks fight or prevent inflation, though they have different approaches. Monetarists emphasize keeping the growth rate of money steady, and using monetary policy to control inflation (increasing interest rates, slowing the rise in the money supply). Keynesians emphasize reducing aggregate demand during economic expansions and increasing demand during recessions to keep inflation stable. Control of aggregate demand can be achieved using both monetary policy and fiscal policy (increased taxation or reduced government spending to reduce demand)

It appears that the monetary system in Bangladesh has a built in bias towards expansion of money supply. It is commonly acknowledged that inflation is hard to prevent in a country in which the government has direct and indirect authority to print money to finance a fiscal deficit. Inflation is harder to prevent if the government creates money not only to finance fiscal deficit but also to provide subsidized credit to both the private and public sectors. Here we explain some strategic point that might be useful to reduce inflation.

We propose a number of policy recommendations for dealing with high inflation.

- Central bank can be entirely independent of government influence to achieve the rate of inflation that is deemed to be appropriate. Fiscal policy considerations cannot dictate monetary policy. Freedom from fiscal dominance implies that government borrowing from the central bank is low or nil, and that domestic financial markets have enough

depth to absorb placements of public debt, such as treasury bills. If fiscal dominance exists, inflationary pressures of a fiscal origin will undermine the effectiveness of monetary policy by obliging the Central Bank to accommodate the demands of the government, say, by easing interest rates to achieve fiscal goals. The monetary authority in Bangladesh is not independent of the fiscal authority and that it merely implements the decisions regarding credit expansion and monetization of budget deficit taken by the executive branch of the government. An implication of this is that the ultimate responsibility for the expansionary monetary policy in Bangladesh lies with the Government (Bangladesh Economic Update, 2011).

- Enhancing the transparency, communication and signaling effect of policy moves.
- To contain inflationary pressure in the economy, the growth of broad money should be in line with the estimated real GDP growth and a target for the inflation rate.
- As the government borrowing from non-bank sources is mainly non-inflationary, the government may prefer to borrow more from non-bank sources (national savings schemes) by reinstalling/introducing some long-term savings schemes as were in force earlier.
- Measures may be taken to make the exchange rate responsive to that of neighboring countries especially India by shunning the interventionist exchanges rate policy of Bangladesh Bank.
- The growth of reserve money arising from reserve accumulation maybe offset by sterilization. Bangladesh Bank may sell government securities for which it will have to pay interest.
- The government should maintain sufficient buffer stock of food grain (rice and wheat) in order to meet any kind of shocks. This will instill confidence in people.
- The surveillance on the part of the government may be enhanced through weekly monitoring of domestic and international prices of essential commodities.
- To inject competition in the market, the government should promote small and medium traders along with big importers for import of essential commodities, and help them get credit from commercial banks.
- The government should promote the establishment of producers' cooperatives, which will work towards ensuring fair prices of their products, and at the same time help eliminate unnecessary agents in the supply chain. This will help stabilize the market price.
- More investment in the agriculture sector is needed to undertake research and extension work in order to invent/upgrade modern technology to boost agricultural production, strengthen capacity in storage, marketing and management along with setting up of agro-based industries.
- Like the Indian state trading agencies, the government should use the experience of Trading Corporation of Bangladesh (TCB) by strengthening its capacity with skilled manpower to break up any collusive oligopolistic power exercised by the private sector and thus improve the competitiveness of the distribution network.
- To strengthen local currency Government has to increase Remittance Inflow, Export & Production.
- The policy makers have to keep a sharp eye on cost behavior in the relevant periods.
- Cutting down indirect tax on commodities may help to reduce inflation pressures temporarily.

6. Conclusion

The purpose of this study has been to discuss the relative impact of monetary policies on economic activities in Bangladesh. The growing importance of monetary policy and the

diminishing role played by fiscal policy in economic stabilization efforts may reflect both political and economic realities of our country. Moreover, inflation acts as an important and key variable which influences other macro economic variables of a country. We have seen that, the central bank uses interest rates and the money supply and many other monetary tools to guide economic growth by controlling inflation and stabilizing currency. We have analyzed the consumer price index and several other indicators to understand the impact of monetary policy on inflation. We have found out that, the inflation rates are co-related with the growth rate of gross domestic product and money supply in Bangladesh. There is positive co-relation between the rate of inflation and rate of change in GDP at constant prices in Bangladesh. Furthermore, there is negative co-relation between rate of inflation and changes in money supply in Bangladesh. Bangladesh had favorable current account position for which it could keep its currency slightly stronger. However, it should adopt some contractionary policy because of rising current account deficit. We believe that, the monetary policy should be contractionary at times, even if it reduces economic growth of the country because in the long run, it may bring about stability to our economy. Moreover, we find a lag in the policy response of Bangladesh Bank to higher inflationary expectations. They don't have sufficient and reliable policies to cope with inflation and even if they do, they are not actively well-used. In today's environment of global finance, fixed exchange rates is often not a viable option for fighting inflation. Thus, governments must make important decisions about monetary policy.

REFERENCES

Aghevli and Khan. 1978, "Government Deficits and the Inflationary Process in Developing Countries", IMF, Staff Papers, Vol. 25, No. 3, pp. 146-162

Ahmed, S. 1977 "Demand for Money in Bangladesh: Some Preliminary Evidence", Bangladesh Development Studies, vol-5, issue-2, pp. 264-286

Ali and Islam 2010,Money Supply Function for Bangladesh: An Empirical Analysis. AIUB Bus Econ Working Paper Series, No 2010-01

Andreas and Reschreiter, 2011 The effects of the monetary policy regime shift to inflation targeting on the real interest rate in the United Kingdom, Economic modelling. -Amsterdam [u.a.] : Elsevier, ISSN 0264-9993, ZDB-ID 868243. - Vol. 28, 1/2, pp. 754-759

Antonio, 2012, Money Growth and Inflation in the Euro Area: A Time-Frequency View. Oxford Bulletin of Economics and Statistics, Vol. 74, Issue 6, pp. 875-885, 2012

Ball and Mankiw et al, 1988. "The New Keynsesian Economics and the Output-Inflation Trade-off," Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 19(1), pages 1-82.

Bangladesh Economic Update. (2011). Food Prices and Inflation Trajectory. Bangladesh Economic Update. Volume 2, No. 1, January-February 2011

Bhattacharya and Khan, 2009, Recent Monetary Policy Statement of Bangladesh Bank, An Analytical Commentary, Occasional Paper: 82, JEL codes: E52 F31 F33

Bhuiyan and Lucas et al, 2007, "Real and nominal effects of monetary policy shocks", Canadian Journal of Economics, 40, 2,pp. 679-702.

Bhuiyan, 2009, "Monetary transmission mechanism in a small open economy: a Bayesian structural VAR approach", Queens Economics Department Working Paper No.1183

Bhuiyan 2012, The Effects of Monetary Policy Shocks in Bangladesh: A Bayesian Structural VAR Approach In International Economic Journal, 26(02), pp. 301-316.

Biswas, Winckler et al 2011: Approximation of the influence of Monetary Policy on economic growth, employment generation, and inflation- A case study in Bangladesh, IJRFM Volume 1, Issue 3 (July, 2011) (ISSN 2231-5985)

Bruno & Easterly 1998, Inflation Crises and Long-run Growth. J. of Monetary Economics, 41: pages 3-26

Cagan 1956 "Monetary Dynamics of Hyperinflation", in M. Friedman, editor, Studies in the Quantity Theory of Money. Chicago: University of Chicago Press, pp. 47-68

Cavoli and Ramkishen, et al, 2008, Open economy inflation targeting arrangements and monetary policy rules: application to India, Indian growth and development review. - Bingley: Emerald, ISSN 1753-8254, ZDB-ID 24625097. - Vol. 1.2008, 2, pp. 237-251

Chowdhury and Abdur, 1986, "Vector auto regression as an alternative macro-modeling technique", Bangladesh Development Studies, 14, pp. 21-32.

Chowdhury and Dao 1995. "Monetary policy, output and inflation in Bangladesh: a dynamic analysis,"Applied Economics Letters, Taylor and Francis Journals, vol. 2(3), pages 51-55

Cochrane, 1999. "A Frictionless View of U.S. Inflation," NBER Chapters, in: NBER Macroeconomics Annual 1998, volume 13, pages 323-421 National Bureau of Economic Research, Inc.

Cristadoro and Veronese, 2011,"Monetary policy in India: is something amiss?", Indian Growth and Development Review, Vol. 4 Iss: 2 pp. 166 – 192

Deaver, 1970, "The Chilean Inflation and the Demand for Money", in D.M. Meiselman (ed.), Varieties of Monetary Experience, Univ. of Chicago Press, Chicago, pp. 132-145

ECB 2001, A guide to Eurosystem staff macroeconomic projection exercises, June.

Fischer and Stanley 1983 Indexation and Inflation, Journal of Monetary Economics 12,pp. 519–541.

Fischer, S., 1993. The role of macroeconomic factors in growth. Journal of Monetary Economics 32 (3), pp. 485-511

Friedman, M., 1956. The quantity theory of money: a restatement. In: Friedman, M. (Ed.), Studies in the quantity theory of money (Chicago: University of Chicago Press), pp. 3–21.

Friedman 1961 "The Lag in the Effect of Monetary Policy", Journal of Political Economy, Vol. 69, p.447-66

Friedman, 1968, The Role of Monetary Policy, The American Economic Review, Vol. 58, No. 1, pp. 1-17.

Friedman, 1970. "A Theoretical Framework for Monetary Analysis, "NBER Books, National Bureau of Economic Research, Inc, pp.-313-344

Friedman 1971 "A Monetary Theory of National Income", Journal of Political Economy, Vol. 79, pp. 323-37.

Friedman, B.M., 1975. Targets, instruments, and indicators of monetary policy, Journal of Monetary Economics 1, pp. 443–473

Galí & Monacelli, 2004. "Monetary policy and exchange rate volatility in a small open economy," Economics Working Papers 835, Department of Economics and Business, Universitat Pompeu Fabra, pages- 342-364

Ghatak and Spanjers, 2007 "Monetary policy rules in transition economies: the impact of ambiguity", International Journal of Development Issues, Vol.6 Iss:1, pp.26–37 Gordon, 1984, The Short Run Demand for Money: Reconsideration", Journal of Money. Credit, and Banking, Vol.16, No. 4, pp 234-246

GOB, Bangladesh Economic Review (Various Issues), Ministry of Finance, Government of Bangladesh

Gupta, and Kabundi, 2010: The effect of monetary policy on house price inflation: A factor augmented vector auto regression (FAVAR) approach, Journal of Economic Studies, Vol. 37 Iss: 6, pp.616 – 626

Hossain A. 1988 A quarterly short run money demand model for Bangladesh 1974: 1985: 4, The Bangladesh Development Studies, 16, pp. 1 – 30.

Islam, 2010: Monetary Policy and Money Supply Process in Bangladesh: An Analytical Review, Institute of Governance Studies, BRAC University, Dhaka, Bangladesh, unpublished

Lucas, 1975. "Econometric Policy Evaluation: A Critique." Carnegie-Rochester Conference Series 1, pp.19–46.

Mackinnon, White, et al, 1983 Test for model specification in the presence of alternative hypothesis: some further results, Journal of Econometrics, 21, pp. 53 – 70

Malima, K.A. 1980, "Inflation in the Tanzania Environment" in Rwegasira K.S .P and L.A. Kanneworff, (eds.) Inflation in Tanzania (Causes, Effects and Control). Institute of Finance Management (IFM), Dar-es-Salaam, pp. 123-142

Mansur 2007: *Cointegration, Error Correction and the Demand for Money in Bangladesh, Bangladesh Institute of Development Studies (BIDS), ID code: 21026*, unpublished

Maroney, & Hasan, et al, 2004: A macro econometric model of Bangladesh economy and its policy implications, Journal of Developing Areas 38.1 pp. 135-149.

Ramon Moreno & Agustin Villar, 2010. "Inflation expectations, persistence and monetary policy," BIS Papers chapters, in: Bank for International Settlements (ed.), Monetary policy and the measurement of inflation: prices, wages and expectations, volume 49, pages 77-92 Bank for International Settlements.

Obstfeld and Rogoff., 1995. "Exchange Rate Dynamics Redux," Center for International and Development Economics Research (CIDER) Working Papers C95-048, University of California at Berkeley

Prasad, 2010, "After the Fall", IMF, Finance and Development, (June): pp.22-25

Roberts, 2006. "Monetary Policy and Inflation Dynamics," MPRA Paper 812, University Library of Munich, Germany,143-165

Rwegasira, 1974. "Monetary Stability and Economic Development in Uchumi, Vol. 1 No. 2, pp. 114-135

Subrat,and Ghatak, et al, 2007: Monetary policy rules in transition economies: the impact of ambiguity, International Journal of Development Issues, Vol. 6 Iss: 1, pp.26 – 37

Sunkel, 1960, Inflation in Chile: Unorthodox approach. International Economic Papers, 10, 107-31

Tsaing, S.C. 1969, Journal of Money, Credit and Banking, I(1969), 266–80 "A Critical Note on the Optimum Supply of Money", (p272)

Vogel, R. 1974: "The dynamics of inflation in Latin America". American Economics Review, pp. 102-14

Websites:

- http://www.bangladesh-bank.org/pub/monthly/selectedecooind/magecoind.pdf
- http://www.thedailystar.net/newDesign/news-details.php?nid=242341
- http://www.thedailystar.net/newDesign/news-details.php?nid=248571
- www.bb.org.bd 2.
- www.mof.gov.bd 3.
- www.economywatch.com 4
- www.bbs.gov.bd/home.aspx

Money Laundering: An Overview

Dr. Deepa Joshi[1], Ashutosh Vyas[2], Ms. Megha Joshi[3]

[1]Associate Professor, Shri Vaishnav Institute of Management, Indore, India
[2]Assistant Professor, Shri Vaishnav Institute of Management, Indore, India
[3]Research Scholar, Shri Vaishnav Institute of Management, Indore, India

ABSTRACT

Money laundering is generally regarded as the practice of engaging in financial transactions to conceal the identity, source, and/or destination of illegally gained money by which the proceeds of crime are converted into assets which appear to have a legitimate origin. In other words, Money Laundering refers to the conversion or "Laundering" of money which is illegally obtained, so as to make it appear to originate from a legitimate source. The recent activity in money laundering in India is through political parties' corporate companies and share market. Bank fraud is a serious financial crime that involves the unlawful obtainment of funds from a bank or other financial institution. Money is the root cause of many evils like corruption, black marketing, smuggling, drug trafficking, tax evasion, and the buck does not stop here. While carrying out the Know your Client (KYC) norms, special care has to be exercised to ensure that the contracts are not anonymous or under fictitious names. Money is the prime reason for engaging in almost any type of criminal activity .Money laundering is the method by which criminals disguise the illegal origins of their wealth.

Key-Words: Money Laundering, Anti- Money Laundering (AML), Know Your Customer(KYC), Financial Action Task Force (FATF)

GEL Classification Code: E49; E50; P44

INTRODUCTION

Money laundering is generally regarded as the practice of engaging in financial transactions to conceal the identity, source, and/or destination of illegally gained money by which the proceeds of crime are converted into assets which appear to have a legitimate origin. In other words, Money Laundering refers to the conversion or "Laundering" of money which is illegally obtained, so as to make it appear to originate from a legitimate source. Money Laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drug / arms trafficking, terrorism and extortion The money which is legally obtained is known as "CLEAN MONEY", and the money which is illegally obtained is known as "DIRTY MONEY".

Generally, Money Launderers tend to seek out areas in which there is a low risk of detection due to weak or ineffective anti-money laundering programmes. Because the objective of Money Laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through areas with stable

financial systems. Money Laundering is a threat to the good functioning of a financial system. However, it can also be the Achilles heel for criminal activities.

Stages of Money Laundering

There are three independent steps or stages in Money Laundering as shown below:

- Placement: "Placement" refers to the physical disposal of bulk cash proceeds derived from illegal activity.
- Layering: "Layering" refers to the separation of illicit proceeds from their source by creating complex layers of financial transactions. Layering conceals the audit trail and provides anonymity.
- Integration: "Integration" refers to the reinjection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds.

FINANCIAL ACTION TASK FORCE (FATF)

Financial Action Task Force (FATF) an intergovernmental body was formed in 1989 by the G7-summit at Paris, with the purpose to develop and promote the policies, both at national and international levels, to combat money laundering and terrorist financing. It is a "policy-making body" that works to generate the necessary political will to bring about legislative and regulatory reforms in these areas. The membership has now steadily grown to encompass 33 nations, most of them from the Organisation for Economic Co-operation and Development (OECD). Over the years, the FATF has developed about 40 recommendations to guide states in their attempts to strengthen their financial systems that have come to be regarded as world standards. Since 2001, the FATF has also expanded its activities to include the financing of terrorism and as a result, there are now nine special recommendations. The recommendations set minimum standards for action for countries to implement the detail according to their particular circumstances and constitutional frameworks.

WHO CAN BE A MEMBER OF FATF?

A Country can be a member of FATF if it is:

- A strategically important country which is a full and active member of FATF-style Regional Body.
- With a letter from an appropriate Minister or person of equivalent political level making a political commitment to implement the FATF recommendations within a reasonable time frame and to undergo the mutual evaluation process; and
- Effectively criminalize money laundering and terrorist financing;
- Make it mandatory for financial institutions to identify their customers, to keep customer records and to report suspicious transactions; and
- Establish an effective FIU (Financial Intelligence Unit), so that the country will be assessed fully or largely compliant with recommendations

The Prevention of Money-Laundering Act, 2002 came into effect on 1 July 2005. Section 3 of the Act makes the offense of money-laundering cover those persons or entities who directly or indirectly attempt to indulge or knowingly assist or knowingly are party or are actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property, such person or entity shall be guilty of offense of money-laundering.

Section 4 of the Act prescribes punishment for money-laundering with rigorous imprisonment for a term which shall not be less than three years but which may extend to

seven years and shall also be liable to fine which may extend to five lakh rupees and for the offences mentioned [elsewhere] the punishment shall be up to ten years.

Section 12 (1) prescribes the obligations on banks, financial institutions and intermediaries (a) to maintain records detailing the nature and value of transactions which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month; (b) to furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed and t records of the identity of all its clients. Section 12 (2) prescribes that the records referred to in sub-section (1) as mentioned above, must be maintained for ten years after the transactions finished.

The recent activity in money laundering in India is through political parties corporate companies and share market.Bank fraud is a serious financial crime that involves the unlawful obtainment of funds from a bank or other financial institution. Bank fraud cases are usually distinguished from outright bank robbery as they rely on the use of deception and confidence tricks rather than the threat or use of violence. Bank fraud cases come in many different forms, including several types of check fraud, identity theft, embezzlement, and document fraud.

Anti money laundering and Economic Development: The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector—international trade and capital flows—to the detriment of long-term economic development. Developing countries' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money-laundering activity through OFC channels. Effective anti-money-laundering policies, on the other hand, reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

Insurance Sector:

The most common form of money laundering that insurance institutions will encounter takes the form of a proposal to enter into single premium contract, lump sum top-ups to an existing life contract. These contracts in themselves may be merely one part of a sophisticated web of complex transactions, which will often have their origins elsewhere in the financial services sector. Money laundering is confused to the fraudulent practices prevalent in industry like fraudulent claims. It is also thought to be relatable to foreign exchange transactions, and both of these are some of the misconceptions about money laundering. They may be merely one of the stages of laundering money.

Banking Sector:

Across the world, banks have become a major target of Money Laundering operations and financial crime because they provide a variety of services and instruments that can be used to conceal the source of money. What are the implications of Money Laundering for banks? Launderers employ currency deposits, fake businesses and cash being generated through legitimate businesses. Across the world, banks and financial institutions are liable for prosecution if their employees become involved in Money Laundering activities. At the same time, norms for record keeping, reporting, account opening and transaction monitoring are being introduced by central banks across the globe for checking the incidence of Money Laundering. Employees of banks are also being trained

to recognize suspicious transactions. The dilemma of the banker in the context of Money Laundering is to sift the transactions representing legitimate business and banking activity from the irregular / suspicious transactions.

Banks were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. These 'Know Your Customer' guidelines have been revisited in the context of the Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). These standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards both by the banks/financial institutions and the country have become necessary for international financial relationships. Detailed guidelines based on the Recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence(CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary are enclosed. Banks are advised to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place with the approval of the Board within three months of the date of this circular. It may also be ensured that banks are fully compliant with the provisions of this circular before December 31, 2005. This facility is being provided absolutely FREE OF COST to the investors. To begin with, investors investing Rs.50,000 or more will have to comply with KYC effective from 1st February, 2008.

KYC controls typically include below details:

- Collection and analysis of basic identity information (CIP)
- Name matching against lists of known parties
- Determination of the customer's risk in terms of propensity to commit money laundering or identity theft
- Creation of an expectation of a customer's transactional behavior
- Monitoring of a customer's transactions against their expected behavior and recorded profile as well as that of the customer's peers.

LITERATURE REVIEW

Kini, Satish M,Fischer, Eric R,Kales, Andrew B,Kerr, Richard studied on the provisions of the new Bank Secrecy Act (BSA)/Anti-Money Laundering Examination Manual and its implications for banks and other financial institutions. The BSA Manual is designed as a reference manual for both examiners and banks. The purpose of the manual, as noted in its introduction, is to "ensure consistency" in the application of BSA requirements among the federal bank regulatory agencies. The BSA Manual also serves to inform banks regarding compliance program requirements and examiner expectations. In the introduction, the BSA Manual makes clear that banks must adopt a risk-based approach to anti-money laundering compliance.

Longfellow, Tom provides advice for meeting U.S. federal anti-money laundering regulations. Money laundering has become a significant concern since the terrorist attacks of September 11, 2001 on the United States, as U.S. federal officials have become wary of organizations that launder money to finance terrorism. A series of suspicious activity indicators for banking customers are also provided, including checks on

customer behavior, the opening of multiple bank accounts, and frequent account activity.
Morales, Rafael. A focuses on a court ruling by the Philippines' Supreme Court in a case, which effectively restrained the initiatives of the Anti-Money Laundering Council (AMLC) to combat money laundering activities in the country. As part of Section 11 of the Anti-Money Laundering Act, the AMLC is authorized to inquire, upon order of any competent court, into any financial transactions that violates the Act. The Supreme Court ruling cited that Section 10 of the Act explicitly allows ex parte applications for a court order to freeze monetary instruments, but similar ex parte language is not found in the case of Section 11.
Accountants present guidance issued by the Consultative Committee of Accountancy Bodies for accountants in fulfilling the requirements of the anti-money laundering sections of Great Britain's Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003. These legislations introduce major changes to accountants' responsibilities and potential criminal liability for all accountants working in Great Britain. Money laundering now includes possessing, or in any way dealing with, or concealing, the proceeds of the crime. For the purposes of the guidance, it also involves similar activities relating to terrorist funds, which include funds that are likely to be used for terrorism, as well as the proceeds of terrorism. Accountants working in practice or other relevant businesses must report knowledge or suspicions of money laundering to the National Criminal Intelligence Service. Businesses, principals and employees face significant criminal penalties where they breach the requirements of the new legislation.
Hülsse, Rainer,, Kerwer, Dieter said as organizations have come under the increasing influence of global rules of all sorts, organization scholars have started studying the dynamics of global regulation. The purpose of this article is to identify and evaluate the contribution to this interdisciplinary field by the 'Stockholm Centre for Organisational Research'. The latter's key proposition is that while global regulation often consists of voluntary best practice rules it can nevertheless become highly influential under certain conditions. We assess how innovative this approach is using as a benchmark the state of the art in another field of relevance to the study of global regulation, i.e. 'International Relations'. Our discussion is primarily theoretical but we draw on the case of global anti-money laundering regulation to illustrate our arguments and for inspirations of how to further elaborate the approach.
Gnutzmann, Hinnerk,McCarthy, Killian J,Unger, Brigitte explained the incidence of money laundering, and the zeal with which international anti-money laundering (AML) policy is pursued, varies significantly from country to country, region to region. There are, however, quite substantial social costs associated with a policy of toleration, and this begs the question as to why such a variance should exist. In this paper we claim that, due to the globalisation of crime, if a single country should break the "chain of accountability", then it will provide a safe haven for criminals and attract the total financial proceeds of crime. Because smaller economies are best able to insulate themselves from the costs of crime, we argue that smaller countries bear only a tiny share of the total costs relative to the potential benefits of investment that money laundering offers, and so have a higher incentive to tolerate the practice compared to their larger neighbours. As such, we claim that the existence of a money laundering market is due to a policy of AML 'defection', and that the degree of 'defection' depends largely on the size of the country. We present a simple model of policy competition which formalises this intuition, and conclude by exploring a number of policy recommendations which flow from this. [Copyright &y& Elsevier]

RATIONALE OF THE STUDY

Money is the root cause of many evils like corruption, black marketing, smuggling, drug trafficking, tax evasion, and the buck does not stop here .People are crazy for money. Majority is here to become rich and money has become the basic goal of education. The more developed the nation, the more the standard of living of the people. People want more money to cater to their needs and at a point of time they don't hesitate to have money from any source (black or white who cares). This is the available soft corner where the concept of money laundering enters and prospers. Though academically it could be discussed that money-laundering may prove useful in certain context, in light of the harmful effects of money-laundering posed above no one would argue against the anti-money-laundering laws. There are various motivations to have an AML mechanism in place. To begin with, at the most basic, the rationale is to support the adage that "crimes don't pay". Firstly, there is the moral dimension: crime should not pay. It is simply not acceptable to society that a person who does wrong should benefit as a result. Apart from the aforesaid dimension, it is intended to deprive the criminal organization of their "financial lifeblood." Moreover, if it is shown that crime does not pay would act as a sufficient deterrent, as few theorists suggest for cost-benefit analysis, especially in economic crimes like money-laundering. Further, there is another theory that if criminals can be prevented from profiting from their offences, they will not be able to re-invest money in those various ways and hence will be hampered from committing further offences. We live in a globalized world as a community and have international relations at stake. There are pressures from parent organizations to which one has acceded to as well as pressures from the developed countries for compliance to tough anti-money-laundering regimes. The compliance results in better international status of the country. Anti-money laundering law is necessary because money laundering tends to corrupt even the most professional players in the market. Now a money-launderer can be a white collar businessman doing the business legitimately. Money laundering promotes corruption and bribery in every sector, specifically the banking and insurance sector.

OBJECTIVES

To study the role of Anti Money Laundering on Indian financial Sector.

RESEARCH METHODOLOGY

The research methodology includes a combination of literature review and secondary data. The purpose was to use theory as a base for the research and support when doing analysis and making conclusions. The whole study is done from a management perspective.
Data collection: Information mainly from the Internet, journals and magazines, books, earlier research works and so on.
Research design: This study is an analytical and descriptive in nature.

FINDINGS

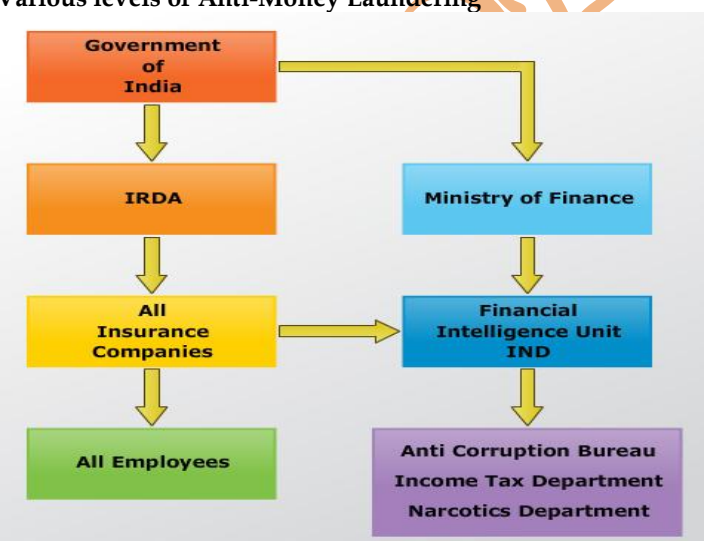
The major findings of this research study were as follows:

- While carrying out the Know your Client (KYC) norms, special care has to be exercised to ensure that the contracts are not anonymous or under fictitious names.
- KYC process is initially to be done as per the extent guidelines. Any changes in the customer's recorded profile that comes to the notice of the insurer and which is inconsistent with the normal and expected activity of the customer should attract the attention of the

insurer for further ongoing KYC processes and action as considered necessary.

- Insurers should devise procedure to ensure that proposals for contracts with high risk customers are concluded after approval of senior management officials . It is however , emphasized that proposals of Politically Exposed Persons(PEP's) in particular requires approval of senior management , not below Head(underwriting) / Chief Risk Officer level.
- It is advised that special attention is paid to all complex unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose and transactions.
- It is further advised that the background including all documents / office records memorandums pertaining to such transactions as far as possible , be examined by the Principal Compliance Officer for recording his findings.These records are required to be preserved for ten years.
- Principal Compliance Officer for AML guidelines should be at senior level and preferably not below the Head / Chief Risk Officer level and should be able to act independently and report to senior management.
- Principle compliance officer for AML guideline and staff assisting him in execution of AML guidelines should have timely access to customer identification data , other KYC information and records.
- Directors , officers and employees shall be prohibited from disclosing the fact that a Suspicious Transactions Report or related information of a policyholder / prospect is being reported to the FIU-IND.

Various levels of Anti-Money Laundering



CONCLUSION

Money is the prime reason for engaging in almost any type of criminal activity .Money laundering is the method by which criminals disguise the illegal origins of their wealth and protect their asset bases, By doing so they can avoid the suspicion of law enforcement agencies. Criminals are now taking advantage of the globalization of the

world economy by transferring funds quickly across international borders.

Impact of Dirty Money: There are basically two impact of dirty money

- It causes criminal offence.
- It causes reputation damage to the financial institutions alleged of dealing with illicit money.
- It also increases crime and corruption which adversely affects economic growth.
- It reduces the productivity of financial institutions by diverting resources.
- It has an adverse effect on economy and affects the legal system. It is moving illegally, the acquired cash through financial system and gives virtual appearance of legally acquired cash.

It leads to rise in Inflation Rates and increase Criminal Rate

- Flow of dirty money in the system increases purchasing power of people and leads to an increase in demand for goods and services in the market.
- The dirty money enters in the financial system it is difficult to trace and curb inflation.
- Availability of dirty money from different sources increases the strength of criminals and gives them a free hand to spend on illegal activities.

Combating with Dirty Money: Finally we conclude that through AML we are able to stop the entry of dirty money in system.AML prevents our whole economy and society from dirty money. AML combating with dirty money on the points (a) KYC norms and due diligence processes, (b) Regulatory compliance, (c) AML training for employees and agents, (d) Close cooperation with IRDA, Financial Intelligence Unit-India and Law-enforcement agencies, (e) Suspicious activity reporting, (f) Monitoring and Surveillance.

REFERENCES

Bibliography

International Review of Law & Economics; Sep2010, Vol. 30 Issue 3, p244-252, 9p
Accountancy; Apr2004, Vol. 133 Issue 1328, p112-124, 13p
International Financial Law Review; May2009, Vol. 28 Issue 5, p42-42, 1p
Banking Law Journal; Oct2005, Vol. 122 Issue 9, p940-952, 13p
Organization; Sep2007, Vol. 14 Issue 5, p625-642, 18p
Organization; Sep2007, Vol. 14 Issue 5, p625-642, 18p
Journal of Financial Planning; Sep2006 Supplement, p15-15, 1p
V.K.Bhalla,"International Finance Management",2nd Edition, Anmol Publications, 2001.
Ian.H.Giddy, "Global Financial Markets", Delhi, AITBS Publications, 1997.
O.S.Gupta, "Life Insurance", Special Reference to L.I.C.
Vasant Joshi and Vinay Joshi, "Managing Indian Banks", Response Books.

Webliography

www.google.com
www.wikipedia.com
www.ebsco.com
www.ebooklibs.com
www.encylopedia.com
www.scribd.com
www.researchpapers.com

Global Disclosure of Economics and Business

(Peer reviewed international journal)

Open Access Philosophy

Under **Open Access Philosophy,** GDEB will not charge for the access of its journals. This will ensure that a large percentage of students, scholars, researchers and practitioners will be able to benefit from the research published through ABC journals. Moreover, this process will also enable authors' papers to receive a higher ranking. A greater number of people being able to access and consequently refer to papers will mean a **higher citations** and **Impact Factor** for ABC journals. Following are advantages of Open Access Philosophy:

1. Your research work will be indexed and abstracted in the internationally reputed databases and search engines immediately after publication.
2. Open Access increases the number of downloads, page views, citations etc. increasing the rate of dissemination of your research work manifold.
3. It is inferred from past researches that the papers published under "**Open Access Philosophy**" are four times more likely to be cited than the papers published under "**Non-Open Access Philosophy**"

Peer Review Policy

Paperless, web-based peer review system, professional and helpful suggestions from reviewers. Articles in this journal have undergone a rigorous blind peer review system, based on initial editor screening and involving in-country and international refereeing, ensures that articles meet the highest standards of quality. Most ABC journals have ISSN with **Global Indexation**. It facilitates our scholars, researchers, scientists, professors, corporates, governmental research agencies, librarians etc., in a more positive way in their research proceedings.

Faster Turnaround Time

Many journals take many months, even years to publish research. By the time papers are published, often they become outdated. GDEB publishes papers in the **shortest possible time**, without compromising on quality. This will ensure that the latest research is published, allowing readers to gain maximum benefit. We provide feedback instantaneously and furnish details of the outcome within about 5 - 6 working days of submission of your research paper. This enables research scholars to use their time effectively on the actual research rather than on the follow ups.

Strong International network & Collaboration

We have exposure to wide range of industries across geographies and worldwide connect through international colleagues and thereby the recognition. We work in collaboration with extremely creditable companies, academic institutions, reputed publication units, government bodies and research firms. By publishing with us, you join ABC Global Research Community of 50,000 scientists / researchers.

For Details- go through the link: www.gdeb.weebly.com

Important!!!

If the responses and the revised manuscript are not submitted by the deadline, submission is deemed to have been abandoned. The rejection of the manuscript will be conveyed to the Authors.

ISSN 2218-5666

ASIAN ACCOUNTING AND AUDITING ADVANCEMENT (4A Journal)

ASIAN ACCOUNTING AND AUDITING ADVANCEMENT is a double blind peer-reviewed and well indexed international journal dedicated to provide a forum for the exchange of information about new and significant research in accounting, auditing, finance and to promote the discipline of business administration throughout the world. 4A journal is now accepting new submissions; please use the journal's online submission System (http://4ajournal.weebly.com/paper-submission.html) to submit your next manuscript.

For more information about journal policy, guide to authors and subscription please visit (http://4ajournal.weebly.com/).

INDEXED IN

University of Arkansas -Fort Smith web database;
IndexCopernicus™;
Ulrich's™ International Periodicals Directory;
EBSCOhost® databases;
Cabell's Directory;
ASA's Publishing Options;
ASA University Review;
getCITED; & Publishing 1.com

It gives us immense pleasure to forward the link of the current issue of our Journal ***Asian Accounting and Auditing Advancement (4A Journal)*** circulated all over the world **141 countries/territories** (Japan; United Kingdom; United States; Russia; Australia; China; Canada; France; Germany; Hong Kong; Italy; Mexico; New Zealand; Singapore; Spain; Swaziland; Switzerland; Taiwan; Afghanistan; Albania; Algeria; Argentina; Armenia; Austria; Bahrain; Bangladesh; Barbados; Belgium; Benin; Bhutan; Bolivia; Bosnia and Herzegovina; Botswana; Brazil; Brunei; Bulgaria; Cameroon; Chile; Colombia; Congo [DRC]; Costa Rica; Côte d'Ivoire; Croatia; Cyprus; Czech Republic; Denmark; Djibouti; Egypt; Eritrea; Ethiopia; Fiji; Finland; Gambia; Georgia; Ghana; Greece; Guatemala; Guyana; Hungary; Iceland; India; Indonesia; Iran; Iraq; Ireland; Israel; Jamaica; Jersey; Jordan; Kazakhstan; Kenya; Kuwait; Kyrgyzstan; Laos; Latvia; Lebanon; Lesotho; Liberia; Libya; Lithuania; Luxembourg; Macau; Macedonia [FYROM]; Malawi; Malaysia; Maldives; Malta; Mauritius; Moldova; Morocco; Mozambique; Myanmar [Burma]; Namibia; Nepal; Netherlands; Nicaragua; Nigeria; Norway; Oman; Pakistan; Palestinian Territories; Panama; Papua New Guinea; Paraguay; Peru; Philippines; Poland; Portugal; Qatar; Romania; Rwanda; Saudi Arabia; Senegal; Serbia; Sierra Leone; Slovakia; Slovenia; South Africa; South Korea; Sri Lanka; Sudan; Suriname; Sweden; Syria; Tanzania; Thailand; Togo; Trinidad and Tobago; Tunisia; Turkey; Uganda; Ukraine; United Arab Emirates; Uruguay; Uzbekistan; Venezuela; Vietnam; Yemen; Zambia; Zimbabwe), for your kind reference and record.

Asian Business Review

ISSN: 2304-2613 (Print)
ISSN: 2305-8730 (Online)
Email: abr@post.com

Call for Papers

Asian Business Review

www.abrjournal.weebly.com

- ✓ **Peer Review Policy**
- ✓ **Open Access Policy**
- ✓ **Well Indexed**
- ✓ **Online Submission**
- ✓ **Online Archives**
- ✓ **Global Circulation**
- ✓ **Free ABC Membership**
- ✓ **Call for Board Member**

Respected Author

Asian Business Consortium believes that a standard, well indexed and worldwide circulated Journal can be an effective agent of sharing beliefs, values and research deeds. We are pleased to inform you that Asian Business Consortium is going to publish Vol. 2, No.1 (2013) Issue of its International Peer Reviewed Journal **Asian Business Review** {International Standard Serial Number: 2304-2613(p); 2305-8730(e)}.

Through this letter we are inviting articles from interested faculty members, scholars, and writers of the universities and other educational institutions for this 2nd Issue, which is expected to be in the press by the 1st week of March, 2013 or in any of the forthcoming issue of the journal. We also invite articles from foreign authors. We hope you will find ABR to be of international standard.

ABR will contain research-based articles on Business, Technology and Social Sciences and such other subjects which are significantly related to the religion of Asia. We will appreciate your cooperation in this regard and request you to kindly circulate this invitation letter to your faculty/department members so that they can avail this opportunity.

Submission of Papers: Full papers written in English and not submitted elsewhere, should be submitted in MS WORD format through the website (**online submission**) http://abrjournal.weebly.com/submission.html**.**

Important Deadlines for the Inaugural Issue

a) Submission of Full Paper **10th February 2013**
b) Reviewer's Feedback and Notification of Full Acceptance **15th February 2013**
c) Registration Deadline **20th February 2013**
d) Expected to be in the press by the **1st week of March, 2013**

Registration Fee for **Regular Issue**
US$ 80 (Outside Bangladesh Author)
BDT 6000 (Bangladeshi Resident Author)

The journal is patronized by **Asian Business Consortium (ABC)**. All authors of the ABR will be considered as **ABC member**.

With regards,
Editor, Asian Business Review