PN-ABC-762
61509

Working Paper 7
October 1988

Working Paper 7

INFORMAL FINANCIAL MARKET AND THE GOLDSMITHS/GOLD MERCHANTS IN BANGLADESH

Ziaush Shams Haq

October 1988

USAID/Dhaka Staff
Reference Library

CONTENTS

		Page
	PREFACE	iii
	INTRODUCTION	1
I	Background of the Study and the Methodology	2
II	The Gold Jewellers, Goldsmiths and Bullion Traders in Bangladesh - An introductory perspective	6
III	The Origin of Gold Supplies and the Extent of Smuggling	10
IV	The Artisans or Goldsmiths	18
V	The Bullion Traders	28
VI	Jewellery Shops	33
VII	The Nature and Extent of Informal Credit Transactions	52
	Conclusion	61
	FOOTNOTES	64
	ANNEX	65

PREFACE

As in many developing countries, the informal financial markets in Bangladesh are alleged to provide the bulk of the credit needs of the economy, particulary to the small scale sector which has little access to the formal (institutional) sources of credit. Despite various attempts to control and regulate informal financial transactions, their scale and pervasiveness of operations have expanded unabated. In the long debate on the usefulness and the performance of the informal financial market operations, and associated issues like the determinants of interest rates, inter-linkages among transactions, etc., some have labelled the markets as usurious, as 'fetters on growth' while others have considered them as desirable adjuncts to the process of brisk growth in trade and commercial operations. Corresponding to these two views, two diametrically opposite policy frameworks are envisaged; the first aims at controlling and ultimately eliminating informal financial transactions while the second aims at expanding the fund flows and increasing the competetiveness in the informal sector. Both lines of arguments however agree that there are imperfections in informal financial markets and that the interest rates usually obtaining in these markets are on the higher side.

Despite the considerable operational significance of the issues involved, and the implications these have for developing an optimal policy environment, information on these markets in Bangladesh remain highly inadequate. The study on the informal financial markets in Bangladesh, conducted by the Bangladesh Institute of Development Studies (BIDS) and sponsored by the Asian Development Bank and the US-Agency for International Development (US-AID), attempts to fill-up this gap in information and analyse some select issues such as the growth and the structure of the markets, formation of interest rates, mobilisation and use-efficiency of resources. A series of case

studies have been conducted under the project; all of them are now being reproduced as working papers. A survey to collect some primary level information on the markets and the characteristics of lenders and to know more about the organizational aspects of informal finance gathering and distribution has also been conducted. The survey findings along with those of the case studies are being used to prepare an overview paper on the informal financial markets in Bangladesh.

This study by Dr Ziaush Shams Haq highlights various aspects of gold trade and gold Jewellery business in Bangladesh, focussing particularly on the need for credit, the extent of credit available, the sources of credit and the terms at which credit is obtained. The study finds that the jewellers rely mostly on credit purchase from bullion traders for a large part of their gold requirements, at implicit rates of interest of about 72 per cent per year. The high interest rates could be due to both the risk factor and the high opportunity costs (in terms of forgone profits) on the part of the jewellers. The study argues that the market for credit in gold and jewellery trade is fragmented and hence increasing the supply of loanable funds would not lead to a reduction in interest rates.

Atiq Rahman
Project Director

INTRODUCTION

This study, commissioned by the Bangladesh Institute of Development Studies, purports to delineate informal financial market transactions, actors and methods as obtaining in the gold trade and gold jewellery industry. The study has considered the methods of operation of the various actors involved, the interlinkages between them, and the cash and credit flows underlying the various transactions involved.

In view of the facts that importation of gold is illegal, that large amounts of gold are smuggled into (and out of) the country and that the industry under review does use a large part of the smuggled gold, it was anticipated that the actors involved would be unwilling to reveal much information regarding the modalities of the transactions they engage in. The study has, therefore, relied on an anthropological approach, using methods of participatory research, gaining the confidence of certain parties and obtaining information (often broad judgements) from them. The study suffers from a severe limitation of data. While it is hoped, the nature of the transactions has been correctly specified, the assessments of the volume of transactions have been built around guarded speculation and judgement. The results have been cross-checked with the key informants and it was felt that, at the very least, minimal levels have been identified. It is hoped that the study can offer some insights into the workings of the urban informal financial markets in Bangladesh.

I BACKGROUND OF THE STUDY AND THE METHODOLOGY

This study is one of eight case studies meant to delineate the operation of the informal financial market(s) in urban areas of Bangladesh. The study has been commissioned by the Bangladesh Institute of Development Studies (BIDS) which is conducting a broad study on urban informal financial markets in Bangladesh with the financial assistance of USAID, Dhaka. The broad objectives of the BIDS study are to examine:

(i) the role played by the urban informal financial market (IFM) in providing financial support to urban small scale enterprises;

(ii) whether it is desirable to develop urban IFM for promoting the urban informal sector particularly the small scale enterprises who have little access to formal sector institutions; and

(iii) if found desirable, the modalities for promoting urban IFM.

Based on the above mentioned broad objectives, the work involved in a particular case study would include, according to the broad TOR of the study, the following considerations:

(i) estimating the size and identifying the factors contributing to the growth of that particular segment of IFM;

(ii) describing the structure of IFM for that activity with details on the nature of financial transactions, costs of such transactions (risk premia, monopoly profits, costs of funds, etc.), variations in interest rates, interlinkages, etc.;

(iii) analysing the role of the market in mobilising savings and the sources of funds;

(iv) analysing the interactions between formal and informal sources of funds (e.g., whether thre is on-lending), and examining in a broader context the effectiveness of monetary policy instruements; and

(v) providing recommendations about making the market more competitive, efficient and equitable.

Any study of goldsmiths and gold merchants is of course expected to shed considerable light on the above aspects particularly in view of the large size of the sector in terms of volume of financial transactions, the shroud of secrecy pervading most of these transactions in view of the sub-sector's connection with the 'black economy' and the consequent ability of this sub-sector to provide large doses of informal financing to service its own needs as well as presumably the needs of other sub-sectors in the economy. In view of the above a priori expectation, the terms of reference for the study have been drawn up to include:

(i) size and trend of the activity (volume of gold traded/converted);

(ii) geographic distribution/concentration of the activity;

(iii) gold trading channels and conversion into jewellery;

(iv) financial needs/flows of different categories of actors, e.g. bullion traders, jewellery shop owners and goldsmiths;

(v) surplus fund and its uses;

(vi) deposit taking/pawn brokerage activities, if any;

(vii) gold hoarding/safe keeping of black money;

viii) future perspectives of the sector and its relation with other sectors;

(ix) gold trading/smithying activities and their possible impact on the financial sector development in Bangladesh; and

(x) recommendations for efficient development of informal financial sector.

This study brings out the fact that there is a considerable amount of illegal transactions in gold in Bangladesh and attempts to assess the magnitude involved to the extent possible. While this

aspect has been addressed, the difficulty of obtaining precise information has stood in the way of a meaningful assessment, and a large amount of guess work has been invoked. The study reviews in general all informal financial transactions in gold. The role of gold merchants, jewellers and artisans and the interactions among them have been considered at length. The extent of overall credit flows between different actors within the activity has been considered.

Methodology

In seeking to derive information from the various actors involved, the study has mostly relied on an anthropological and participatory research method. Informal dialogues were held with a number of bullion traders, retailers and artisans. Attempts to elicit information were often met with a certain amount of reticence; the various parties were extremely cautious in the matter of divulging information particularly with respect to the overall size of transactions and the origin of gold supplies. A certain measure of implicit hostility was also encountered in certain cases. Nevertheless, a good deal of useful information could be obtained from a small number of key informants with whom rapport could be established.

As a complementary measure, a survey was also carried out by means of a predesigned questionnaire. A sample consisting of 20 retail jewellers, 10 artisans and 10 bullion traders was visualized for the survey. Unfortunately, many of the parties chosen randomly for the sample refused to cooperate. Consequently the composition of the sample was finally guided by the attitude of the parties concerned with respect to their willingness to be subjected to a survey questionnaire. Even then, the bullion traders in general would not cooperate in this matter; only five traders gave their consent to cooperate. While 20 retail jewellers and 10 artisans were in fact interviewed as proposed, the quality of information remained suspect in many cases. This became obvious in view of the information obtained from informal discussions with knowledgeable informants.

In general, the anthropological and participatory approach seemed to offer richer dividends for the purposes of this study. The use of survey data was made sparingly and was often tempered by judgements with respect to the 'appropriateness' of such data, the judgements being based on the information obtained informally from informants who could be regarded as 'reliable'.

Since both sample survey data and information from participatory discussions were used, it has not been possible to obtain precise sample statistics. In fact, the sample size itself has been variant with respect to different heads of information. Consequently, the proportions suggested have been applied directly to the population (within Dhaka city) in order to obtain overall magnitudes. The population itself (e.g. of retail jewellers, bullion traders, etc.) has been assessed on the basis of approximations provided by a large number of informants, with the modal values being considered as suitable indicators. While it is obvious that the data would be subject to error, attempts have been made to minimise errors through cross checking with knowledgeable and reliable informants. Given the time frame of the study, the overall resistance of the various actors involved in the matter of divulging information and the consequent unreliability of sample information, this was the best that could be done.

Availability of secondary information is also rather limited. A number of discussions were held with officials of the Customs Department and of the Bangladesh Bank regarding the extent of smuggling and the origin and trend of gold flows. The Gold Bullion Traders' Association, the Swarna Shilpi Association and the Gold Jewellers' Association also provided a great deal of useful information that has proved invaluable for this study.

II THE GOLD JEWELLERS, GOLDSMITHS AND BULLION TRADERS IN BANGLADESH -- AN INTRODUCTORY PERSPECTIVE

The development of formal financial sector institutions (especially banks) in the western countries was preceded by the slow development of banking operations through the medium of goldsmiths and merchants who over time expanded their sphere of operation by owning pawn shops, accepting deposits for safekeeping and issuing promissory notes. In Bengal, prior to 1947, a particular caste of Hindus (the banial) thrived on trading and operation of pawnshops, mostly accepting gold as the item to be traded. A few gold merchants and banias started performing banking functions. Such activities declined, however, after partition. The western model of the emergence of formal financial institutions failed to provide a guide for the emergence of the formal financial sector in post-partition Bengal. Instead, a formal sector, fashioned in the developed western style, was grafted into the economy, and this sector developed without taking due note of the needs of the small scale sector. Consequently, a large part of the economy failed to integrate itself with the formal financial sector, leaving itself at the mercy of the informal sector.

The Islamic laws which partially regulate informal financial transactions has dampened the development of the sector by first equating any kind of interest receipt in the informal sector with usury and second, by barring usury. The large-scale emigration of banias, Hindu goldsmiths and merchants, and small scale indigenous bankers caused a setback to the gradual conversion of such intermediation into a more organized activity. The legal restrictions on informal financial transactions created circumstances which proved congenial for thriving informal and often illegal transactions in gold. The prospects of developing the informal sector to cater to the needs of the economy have been setback considerably by putting restrictions on gold trading/smithying activities and imposing legal and moral sanctions against usury. The result has been that transactions in gold have fueled the black economy and have been used informally to finance illegal activities across national boundaries.

The Actors

The actors involved with various aspects of the gold business in Bangladesh fall into three categories:

(a) bullion traders
(b) jewellery shop owners, and
(c) artisans (goldsmiths or swarna shilpis)

The activities of each group are guided and to some extent, regulated by a corresponding association: the bullion traders' association, the gold jewellers' association and the swarna shilpi association. Hundi agents and smugglers are also linked with the business, their main association being with the bullion traders. Figure-I describes the linkages between the various actors in the gold business.

Bullion traders control a major part of the activities in the gold business. They are the major purchasers and sellers of gold. Bullion traders procure gold from a variety of sources, principally the public (who sell their old jewellery), smugglers and hundi agents. These traders buy old jewellery from the public; these they 'purify' in so called pakai karkhanas (workshops). Moreover, they also operate as pawnshops offering credit to the public who pawn their jewellery. In cases where the jewellery cannot be redeemed, the bullion traders confiscate the jewellery. In obtaining gold (or old gold jewellery), the traders mostly pay in cash. They dispose of their gold to jewellery shops, and also sell gold to smugglers and hundi agents. Gold sold to jewellers is usually provided on credit (deferred payment) for which a lucrative interest premium is obtained. Many of the bullion traders own 'pakai' karkhanas in which they 'purify' old gold jewellery that they procure. They also offer services to jewellers who get old jewellery 'purified' against a service charge (usually paid in cash).

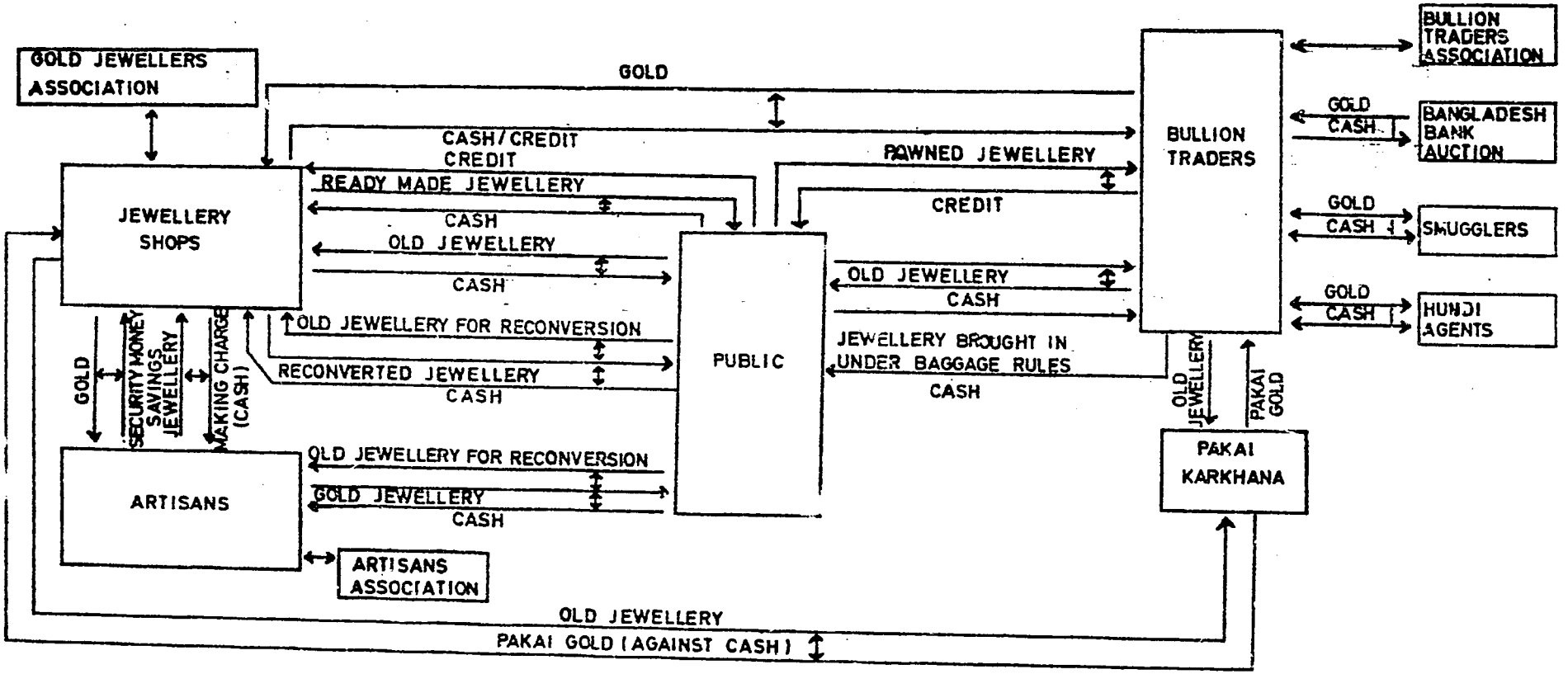

FIGURE 1 : RAW MATERIAL / CASH-CREDIT FLOWS IN THE GOLD BUSINESS

Jewellery shops purchase gold from the bullion traders, usually on deferred payment basis. They also purchase old jewellery from the public (against cash payments); these they send to a pakai workshop for 'purification'. The jewellery shop owners pay for their cash purchases of gold or gold jewellery from the bullion traders or the public from own funds or from funds borrowed from others, usually friends and relatives, or other shop owners. The jewellery shops sell ready made jewellery to the public usually against direct cash payment. They also make jewellery in accordance with specifications provided by the customers. An advance is usually taken prior to processing such orders. While jewellers must maintain gold stocks in order to supply ready made jewellery or to make jewellery on order basis, they also accept old jewellery from the public for reconversion to new designs. The shop owners usually have contractual arrangements with artisans for producing the jewellery. (In some case, the jewellers have their own workshops). Artisans normally provide some security money to the jewellers against the gold provided to them for processing. Artisans have also been seen to provide advances to the jewellers to purchase gold so that they might get more work.

Artisans (goldsmiths or swarna shilpis) are the producers of jewellery and ornaments. The jewellers provide gold to the artisans for conversion to jewellery. Artisans also accept old jewellery from the public for reconversions to new designs.

The activities of each group are regulated by a corresponding association. The artisans' association (swarna shilpi association) looks after the welfare of the artisans. The Bangladesh Jewellers' Samity (BJS) is an association of jewellers throughout the country. It looks after the interests of the industry and deals with matters such as taxes, rate of gold fixation, dealings with the D. C. (Customs), Trade and Commerce Ministry and other bodies. Finally, the bullion traders association looks after the interests of the 400 or so bullion traders in the country.

III THE ORIGIN OF GOLD SUPPLIES AND THE EXTENT OF SMUGGLING

Import of gold through private channels has not been allowed by the Bangladesh government since independence of the country in 1971. Prior to independence, the State Bank of Pakistan permitted a limited inflow and dictated a quota for the purpose. This quota was cancelled in 1971.

Since 1971, the major sources of gold for the industry has been limited to the following:

(i) recycling of the existing jewellery:

- (a) old jewellery sold by the public to the bullion traders or to the jewellery shops;
- (b) old jewellery pawned to the bullion traders and not redeemed;
- (c) old jewellery given by the public to the jewellers (or sometimes to the artisans) for reconversion to new designs;

(ii) new supplies:

- (a) gold jewellery brought in by Bangladeshis from abroad under current baggage rules-part of this is sold to the jewellers or to the bullion traders;
- (b) gold smuggled into the country;
- (c) gold sold (through auction sales) by the Bangladesh Bank; these constitute a part of the smuggled gold which has been seized by the Customs authorities - the pure unalloyed gold is retained by the Bank while the rest is offered for sale.

There is a lack of data as to the exact magnitudes involved and obtaining the exact amount of the gold supply is not possible. Jewellers feel that active thoughts must be given to the matter of enhancing the gold supply. As short term measures, they have suggested that:

(i) Bangladesh Bank should put gold on auction sale four to five times a month, and

(ii) baggage rules could be changed so as to enable an incoming passenger to bring in five to six tolas of gold (at present, ornaments worth Tk. 5,000 only can be brought in as per rules).

Given the present situation, the local demand for gold is mainly fulfilled by a certain percentage of the smuggled gold which is bought by the bullion traders, and to a lesser extent by the jewellers.

The gold traders are all vocal against the government gold policy. They feel that the government must systematize gold import and create favourable conditions to make possible the export of jewellery. The jewellers feel that the government has failed to control the spiralling prices of bullion because of the lack of a rational commercial policy vis-a-vis import of gold. No government, at present or in the past, have attempted to formulate any effective and sound gold policy.

Gold is sold in Saudi Arabia at 300 rials per tola (about Tk. 2700). With gold import banned, a section of people reap the benefit from the large price differential through smuggling of gold. Enhanced gold supplies brought in through smuggling is not reflected in reduced market prices giving enormous profit to the smugglers. The trend of gold price in Bangladesh since 1972 is shown is Table III.1:

The government, it is felt, should seriously consider the question of legalizing gold imports. It could introduce a quota system in a manner similar to that practised in the preliberation period.

TABLE III. 1

TREND OF GOLD PRICE IN BANGLADESH

Year	Price (Tk. per tola)
1972	170
1973	350
1974	600
1975	800
1976	1100
1978	2000
1980	2900
1981-82	3500
1983-84	3700-4500
1985-86	5800
1987	6800

Smuggling

The country is now used as an international corridor for gold smuggling both by residents and by foreigners who are all very well organised and backed by a group of powerful elements within the country. Gold enters the country from Singapore, Saudi Arabia, Abu Dhabi, Great Britain, Pakistan and Malaysia. Startling gold hauls are very often reported at the airports and seaports. Asians, expecially Nepalese, Thais, Indonesians, Malaysians and Singaporeans in addition to Bangladeshis are very often intercepted. Gold bars, also called gold biscuits[1/] are very often found in their luggage (or hidden in various parts of their body). The gold usually originates from Great Britain and the Middle East.

The customs authorities at Patenga Airport in Chittagong hauled about 1100 tolas of gold in 1983/84. During the last 15 years (till August 1986), gold seized at Zia International Airport and Patenga Airport stood at about 31,000 tolas valued at about Tk. 13 crores. The extent of gold seizure by the customs authorities has increased rapidly over the year. While this may point to greater vigilance on the part of the customs authorities, a large increase in the extent of smuggling may also be indicated. Table III.2 shows the extent of gold seizures over the years at various checkpoints in the country.

The amount of smuggled gold received by the Bangladesh Bank from the customs authorities has likewise increased over the years. This is shown in Table III.3. From 1972 to 1986, the customs authorities at Zia Airport alone had deposited with Bangladesh Bank gold worth Tk. 12.83 crores. So far, the Customs has collected Tk. 9.54 crores from the Bangladesh Bank; the balance is due to Customs.

The large difference in the price of gold in the Middle East and in Bangladesh creates the incentive for gold smuggling. As stated earlier, gold is sold in Saudi Arabia at 300 rials per tola

TABLE III. 2

EXTENT OF GOLD SEIZURES SINCE 1972

Year	Amount of gold seized (tola)
1972	148
	-
1977	2,200
1978	2,500
1979	2,500
1980	40
1981	45
1982	2,100
	-
1984	1,800
1985	11,300
1986 (till August)	7,000

TABLE III. 3

AMOUNT OF SMUGGLED GOLD TRANSFERRED BY CUSTOMS TO THE BANGLADESH BANK

Year	Amount of gold transferred by Custom to Bangladesh Bank (tola)
1972-82	8,600
1983	200
1984	5,000
1985	3,300
1986 (till August)	13,200
Total	30,300

(about Tk. 2700) whereas the current price in Bangladesh is about Tk. 6,800 per tola. From Bangladesh, gold is often smuggled to India and Malaysia among other countries.

Gold is also accepted as a transaction value in 'hundi' business. Gold is moreover accepted as payment by foreign ships bringing in smuggled goods. It is clear then that only a part of the smuggled gold enters the gold jewellery business as an input. The exact proportion cannot however be ascertained.

Gold is smuggled in primarily from the Middle East and Great Britain. Gold coming in from Great Britain is purer; they come in slabs, bearing the Queen's insignia and the Bank of England seal. The slabs are rectangular pieces of 5 tolas and 10 tolas (weighing 2.5 to 5.0 Oz.) Influential persons use the services of illiterate wage earners in these countries, making them a payment to bring in gold bars (illegally) to Bangladesh. The modus operandi is frequently changed. The Biman crew were utilized for some time. Currently, gold is carried from the Middle East to Singapore and Bangkok whence the smugglers very often bring gold to Bangladesh through foreign tourists.

Metal detectors and screening machines installed at Zia Airport have helped greately in detecting smuggled gold. A gate-way machine will soon be installed; this will readily indicate gold carrying passengers. There is also a close-circuit TV at work with its thirteen cameras scanning the airport. Patrol vans regularly scout the area around the airport. All these measures are expected to curb smuggling considerably. However, it remains true that powerful people are involved in gold smuggling and customs officials are often afraid to take action in view of the fear of possible reprisals. Also, novel methods of smuggling are often adopted to nullify the efficacy of existing installations. Metal concealed in foam cannot be detected. Gold secreted in machines and tools cannot be discovered easily. For example, a radio with gold parts inside cannot easily

be detected; a refrigerator may contain gold wires inside the gas pipes, and so on. A newly imported car cannot have all its parts taken apart in the interest of finding hidden gold unless there is prior information of some kind.

Gold is also systematically smuggled out of the country and powerful elements within the country control these operations. Hundi dealers and bullion traders are intimately associated with the smuggling operations - both into and out of the country. The jewellers assert that the bullion traders are the real dealers in illegal gold supplies in association with some other elements who are not associated with the gold trade.

It is of course not possible to ascertain the total amount of gold that is smuggled in to or out of the country. Some customs officials are of the opinion that at the most about 20 per cent of the gold smuggled in is intercepted. Using this indicator, the average amount of gold smuggled in during 1985 and 1986 can be hypothesized as about 55,000 totals per year at the very least. Later on, the amount of gold used in the gold jewellery business will be ascertained, and an indirect assessment will be made of the amount of smuggled gold used in the business. According to Bangladesh Bank sources, the portion of smuggled gold that is intercepted and seized by the customs authorities is eventually handed over to the Bank. The pure (unalloyed) gold is usually credited to foreign exchange reserves while the smuggled low quality gold ornaments (mixed with alloys) are auctioned out twice a month. However, the bullion traders and the jewellers claim that they are not aware of the fact that the Bank makes such sales on a regular basis. They have not ever come across any notice of auction sale of gold by the Bank. It would appear therefore that the Bangladesh Bank does not publicise its sales; the gold is then presumably sold to an inner group of influential persons at low auction prices, and they in turn sell the gold at much higher prices to bullion traders or other interested parties.

IV THE ARTISANS OR GOLDSMITHS

The goldsmiths of the country are noted for their artistry and have a rich heritage. The country has a rich and ancient tradition in the production of sophisticated and artistic ornaments; jewellery produced here was once widely acclaimed all over the sub-continent and overseas as well. In the past, there was hardly any well-to-do family that did not possess a whole set of 'jarawa' ornaments. These ornaments were heavy and embodied massive decorations and designs, requiring time, devotion, precision and skill on the part of the artisans. Ornaments such as 'Chandra har', 'Mantasa', 'Ananta', 'Noth' with precious stones, 'Mall', 'Hashuli', 'Bajubandh', 'Kharu', etc., once in vogue, required great artistry on the part of the artisans. Ornaments such as these are not much in demand these days, and the number of skilled artisans able to execute these tasks has also dwindled considerably.

At prsent only a few jewellers in the city can make good jarawa ornaments. Jewellers such as K.C. Roy produce jarawa ornaments at their workshop in North Mushundi, Dhaka. The Bangshal artisans are also noted for their past tradition. Plenty of Muslim artisans worked there, patronised by the Zamindars and upper class people. The same is the case with Nababganj which once had flourishing goldsmithies mainly controlled by the Muslims.

The Dhaka jewellers and artisans have an ancient heritage. Gold ornaments and souvenirs fabricated by Dhaka artisans were once exhibited throughout India (during the British period) for their excellent workmanship as reported by jeweller Madan Gopal Ghosh, owner of Capital Jewellers of Kotwali Road.

The traditional 'Bangla Kaj' which requires much precision, imagination and hard work can never be achieved by pressure machines, dices, etc. used in foreign countries. It is to be noted that the Aga Khan Gold Cup was made by Gangabashi Poddar of Kotwali Para,

Dhaka. Mr Madan Gopal Ghosh has suggested that for best quality jewellery, the designs and dice catalogues of Khetra Nath Das should be introduced as also the designs from Garanhata, Sikdarpara, Kalighat, Bhawanipore and Bowbazar.

At present, the industry is dominated by newcomers of at most 12 to 15 years standing. Most of the large jewellery establishments such as Amin Jewellers, Hira Jewellers, Gold Queen, Nur Jewellers, Rafique Jewellers, Milan Jewellers and Mina Jewellers do not have a past tradition. Many of them have other businesses too, not connected with gold.

Location

There are more than 1 lakh artisans in the country. In Dhaka city alone, there are more than 10,000 artisans. In the rural areas, a person is generally malik or mahajan, bullion trader, jeweller and artisan as well.

The question of safety and security being paramount, workshops cannot be located in all places. Traditionally the workshops are located in clusters in certain areas of the city. The workshops of Tantibazar, Jhulanbari area including Goalnagar Lane, Kotwali Road, Islampur, Narinda, Bangshal and Uttar Mushundi can proudly boast of a long tradition.

Organization

Workshops may be owned by jewellers or they may be independent set-ups owned by mahajans. A jeweller may have more than one workshop if he is carrying on a substantial gold business. But such cases are rare. A Mahajan may, however, have more than one jewellery shop.

The artisans work under the supervision of a headman or head artisan (who in some cases happens to be the Mahajan himself) who assembles the group and guides them in the processing of orders. Typically, about 5 to 7 artisans are engaged in a single workshop. Worksops are usually rented premises which serve both as work area and as living quarters for the artisans. The artisans work on contract basis. The contract is made between the head artisan and the jewellery mahajan.

Work Conditions

Small rented apartments or house are used as workshops. The work area is usually quite small - about 180 to 200 sq. ft. on average. The artisans sit cross - legged on mats spread on the floor as they work. Fans are not used even in the sweltering heat as they would put out the flames which are constantly needed for work with 'Buknol' (essential for 'jhalai') and also because they would blow away valuable gold dust inflicting a heavy loss on the Mahajan. Each workshop has a common retiring room or bedroom which serves as the living quarters for all the artisans. Living conditions are quite inadequate.

Free board and lodging and other amenities are porvided to the artisans. The artisans receive salaries from the mahajans. Salaries range from Tk. 600 to Tk. 1500 per month, able and experienced artisans receiving salaires in the upper ranges. The artisans do not grumble much on the question of pay since most of them earn enough from subsidiary work. A good artisan sometimes accepts orders individually from private parties (notwithsatnding the discomfiture of the mahajan or jeweller he is working under). There are jewellers of good standing who entice away expert artisans from other people's workshops by offering them higher salaries.

Working hours comprise 8 hours a day. Often, however, when large orders are accepted, the artisans have to work overtime; for that no extra remuneration is paid. However, at other times, work

may be slack and the artisans may be sitting idle, but that will not affect their pay or the contract in any way. All artisans enjoy weekly holidays. In addition, they enjoy all government holidays and religious holidays.

Work Description

In the execution of their work, artisans use various locally fabricated tools and equipment. The tools are all hand-made and include buknol (a blow pipe used for welding and made of brass), Brass dice, randa, crucible, dolna machines, small hammers, pliers, and so on. The total cost of tools and equipment does not exeed Tk. 10,000. The artisans would welcome importation of improved types of machines, tools and equipment as they expect that this would modernise the industry and the volume of trade would increase. They do not believe that there would be any adverse effect on employment.

Jewellery making is a highly labour intensive process. One item of jewellery, say a chain, may need 3 artisans for completion. One artisan works as designer. The gold sheet is set as per design. Final polishing needs brass and acid. In the making of ornaments which need welding (especially in wire work) and joining of various parts and sections, artisans have to use payeen invariably. Quality payeen is prepared by mixing 0.5 tola khad of copper with 1 tola of gold. The price of ornaments increases as the use of payeen increases, more so if the experienced client asks the artisans to use quality payeen. Enhanced payment by jewellers to certain artisans depends on the proper and efficient use of payeen by those artisans. The finer and more intricate the design (especially in wire work), the greater the amount of payeen needed. Payeen ia heavily used in work involving gold dust and particles. There are of course some work that do not need payeen at all or need very little of it.

While quality payeen involves mixing 0.5 tola of copper with 1 tola of gold as mentioned earlier, jewellers and artisans nowadays are not so honest; they prepare low quality payeen by increasing the percentage of copper used. Over and above, they add other items such as zinc and silver. They often mix as much as 1 tola or 1.5 tolas of copper, zinc and silver with 1 tola of gold (extremely low quality payeen) for ornament making these days. For quality welding, quality payeen is needed. However, quality payeen is hardly ever used since that reduces the return to the artisans. Where quality payeen is to be used, artisans charge a higher rate as service charges. For making 'solid churi', practically no payeen is required. Making Jarawa ornaments rquires a lot of skill and experience on the part of the artisans. Making charge for such work is very high. Only a few jewellers in the city can make good jarawa sets (with stone settings). A complete jarawa set with inlays of precious stones is very expensive indeed. Jwellers such as K. C. Roy (at North Mushundi, Dhaka) produce jarawa ornaments at their workshop. They have their own design department; the artisans themselves curve designs manually.

While a chain or necklace is made in Bangladesh by experienced artisans using manual processes, there is a lack of such skilled artisans in the West and in the Middle East. Consequently, making charge charged by artisans in those countries are extremely high. In those countries, chains would be made with the help of pressure machines. The artisans feel that the industry must be allowed to import pressure machines, better dice and designs and varieties of catalogues showing clearly the degree of alloy mixed with gold and the prices of different ornaments made thereof. Only then would they be able to produce export quality jewellery.

Profitability

A workshop is usually owned by a jeweller or an independent mahajan. In a typical workshop, 5 to 7 artisans are employed. There are, of course, larger workshops employing15 to 20 artisans. Where jewellers operate their own workshops, they have all their work done in their workshop. They also contract out orders to other workshops in peak periods or in handling large orders when customer needs have to be given precedence. Where independent mahajans operate workshops, they get into contractual arrangements with jewellers regarding receipt of gold, delivery of gold ornaments as per specifications, time of delivery, quality of the ornaments and sharing of benefits (generated through production of inferior quality of ornaments).

The workshops do not have to procure gold independently; they obtain their gold supplies from the jewellers. It is to the interest of the artisans to maintain time schedules and honour other contractual obligations so as to maintain a continuous flow of orders from the jewellers and keep a good name. Recurring costs involve payment or rent, salaries and upkeep of artisans, costs of raw materials such as copper, zinc, silver and acid, electric bills, various dues to government (such as licence fees), various subscriptions and so forth. Revenues are generated through the service charges received for producing jewellery and from the accumulation of reusable gold dust and particles that can be saved and gold that is saved through the use of lower quality payeen (i.e. adding a higher percentage of copper khad than has been ordered). About 5 per cent of the amount of gold processed is 'recovered' in this way and shared by the jewellers and the artisans at the expense of the customers.

A workshop with 5 to 7 artisans has the capacity of processing about 40 to 50 toals of gold per month. However, it is very rarely that artisans get to process such large amounts. A workshop that

gets to process 20 tolas of gold per month on average through the year is considered to be doing well. (There are, of course, workshops attached to (or owned by) the larger and more popular jewellers that are more or less fully utilized throughout the year). There are indeed a very large number of artisans compared to the current needs of the industry, who practise the craft as part of a continuing tradition which they are not prepared to abandon. In times gone by, the goldsmiths combined in their activity the functions of bullion trading, artisanship and retail sales and could always obtain a satisfactory income. With increasing specialization of functions, the surplus generated by the industry has increasingly been monopolized by a shrinking number of profiteers outside the mainstream of the pool of traditional goldsmiths. These are the modern day bullion traders and jewellers, a relatively small number of whom appropriate large surpluses, while the large number of artisans have been relegated to the role of dependent wage earners. The costs and returns from a typical workshop in the city can now be considered. Initial fixed costs amount to about Tk. 1 lakh defrayed on payment of possession (or rental advance) on shop, purchase of tools and equipment, furniture and fixtures (iron safes, etc.), and initial costs (such as licence fees and other preliminary fees and expenses). Such costs are shown in Table IV.1

Recurring costs consists of payment of rental, salaries and other upkeep of artisans, costs of raw materials other than gold (such as copper, zinc, silver and acid), and miscellaneous other costs. For an average shop employing 6 artisans, recurring costs amount to Tk. 16,000 per month as in shown in Table IV. 2.

TABLE IV. 1

INITIAL FIXED COSTS OF A GOLDSMITH WORKSHOP

Item	Cost (Tk.)
Possession of shop	50,000
Tools and equipment	10,000
Furniture and fittings	20,000
Miscellaneous costs (fees, etc.)	5,000
Total	85,000

TABLE IV. 2

RECURRING COSTS OF A TYPICAL GOLDSMITHY SHOP

Item	Monthly Cost(Tk.)
Rent	300
Payment to artisans:	
Salaries	6,000
Food and other expenses	7,200
Raw materials (other than gold)	1,500
Electricity	600
Miscellaneous costs	500
Total	16,100

Revenues are generated from service charges received for crafting jewellery and ornaments. Such service charges vary from order to order depending on the complexity of the design involved and the desired quality of workmanship. On average, service charges amount to about 10 per cent of the value of the gold processed. In addition, revenues come in through two additional sources. One is the value obtained through the saving and subsequent use and sale of reusable gold dust and particles and this amounts to about 1 per cent of the amount of gold processed. Another and more substantial source of earning is through the use of low quality payeen in the production of jewellery -- this generates additional incomes through savings of about 30 per cent of the gold processed; the surplus extracted through this subterfuge is shared by the various parties -- jewellers, mahajans, and artisans -- at the expense of the customers.

Table - IV. 3 shows the revenue earnings and profitability of a small goldsmithy shop processing about 15 tolas of gold per month on average throughout the year. Note that the principal source of earnings is through the savings of gold generated from the use of low quality payeen. Artisans covertly remove about 20 per cent of the savings thus generated while retail jewellers who are aware of the subterfuge also realize their due cut. Even then, the total income of an artisan (considering all sources) remains at the level of about Tk. 3,000 per month while the mahajan profits to the tune of Tk. 7,300 per month.

Informal Credit Transactions

The artisans get their gold supplies from the jewellers (and in occasional cases directly from the public). The need for working capital is low. Consequently, credit requirements are limited.

On the other hand, artisans do have informal credit links with the jewellers with whom they deal. Artisans usually provide security money to the jewellers against the gold deposited with them for processing. Such security money forms an important source of short

term working capital financing for the jewellers. It is also a common practice amongst the artisans to advanc funds to jewellers so that they can secure more work. Such advances also provide valuable help to the jewellers in the matter of short term financing.

TABLE IV. 3

SALES REVENUE AND PROFITABILITY OF A TYPICAL GOLDSMITHY SHOP
(Monthly basis)

Item	Amount (Tk.)
Revenues	
(a) Making charges (processing of 15 tolas of gold)	10,200
(b) Reusable gold dust and particles	1,020
(c) Savings of gold (through illegal use of payeen) : 30% of gold procured	30,600
Total	41,820
Less	
Payoff to jewellers form 'c'(40% of 'c')	12,240
Amount extracted covertly by artisans (20% of 'c')	6,120
Revenue earnings of mahajan	23,460
Costs	16,100
Profits	7,360

THE BULLION TRADERS

There are 400 bullion traders in the country of whom about 100 or so operate in Dhaka city and control a major part of bullion trading in Bangladesh. The bullion traders are the major purchasers and sellers of gold, procuring gold from a variety of sources including smugglers and selling it to jewellery shops, smugglers and other interested parties.

Almost all the bullion trading centres in the city are located in old Dhaka, in such areas as Tantibazar, Islampur, Kotwali Road, Jhulanbari area, Narinda, Bangshal, and Uttar Mashundi. While a number of bullion traders have been approached, they have all been very stringent about revealing any useful information, particularly with respect to their purchases and sales of gold. Some amount of information in this respect has been obtained indirectly from retail jewellers who purchase most of their gold requirements from the bullion traders.

A typical bullion trader maintains an office, usually on rental premises. Initial costs consists of payment for possession of the shop, and purchase of office equipment (such as an iron safe, balances, etc.) and some basic furniture (such as a table, chairs, stools and so forth). Recurrent expenses include payment of shop rental, income taxes, capacity taxes, electric bills, various subscriptions, transport costs, salaries to helpers, etc. For operating the business, a licence has to be obtained from the government after due scrutiny and payment of a fee of Tk. 500. The licence has to be renewed every year (in May) with the payment of an additional Tk. 300.

The bullion traders of the country are organized into an association. The bullion traders association looks after the interests of the bullion traders. The association maintains two offices, one in Kotwali Road, Tantibazar, Dhaka and one in Chittagong.

Sources of gold

The sources of gold for the bullion traders are, as was seen earlier (Figure 1 and Section III), the following:

(i) smugglers and hundi agents;

(ii) Bangladesh Bank auctions of gold[2/];

iii) old jewellery pawned to them by the public and not redeemed;

(iv) new jewellery brought in by passengers from abroad under baggage rules and sold to the bullion traders; and

(v) old jewellery sold to them by the public.

Nothing much is known about the transactions of the bullion traders with the smugglers and the hundi agents. In fact, the bullion traders maintain that their source of gold is solely the old jewellery and ornaments which they purchase from the public.

It is true that the bullion traders make large purchases of jewellery and ornaments from the public. Much of it consists of distress sales', with bullion traders offering very low prices to the distressed customers who are not aware of other avenues for their sales. Credit offered against deposits of old jewellery is again on exhorbitant terms and distressed customers are often not able to redeem their jewellery. Finally new jewellery sold by the incoming wage earners (mostly from the Middle East, who bring it in under baggage rules) is again sold on easy terms to the bullion traders as such sales are not strictly legal. Consequently, the bullion traders are able to mop up a large amount of jewellery from the public at very low prices.

Pakai Karkhanas (Workshops)

The bullion traders refine the old jewellery they procure by melting them and mixing 3 tolas of silver with 1 tola of gold. Most of the bullion traders have their own Pakai Karkhanas (workshops wherein old gold is refined). Anyone can approach them with old or worn-out gold jewellery for 'Pakai' (refinement). For this job, the bullion traders charge about Tk. 20 per tola. There are some 25 pakai karkhanas in Dhaka, 5 in Comilla and 7 Chittagong (Information is not available on the number of such workshops in other cities). Jewellers usually get old jewellery (which they procure directly) refined at the pakai karkhanas of bullion traders. Some jewellers have their own arrangements for pakai.

About 4 to 5 persons are employed in a typical pakai karkhana. A monthly wage bill of Tk. 4,000 to Tk. 6,000 is paid by the karkhana owner. Upto 150 tolas of old jewellery could be refined daily. Raw materials used in refining gold consist of acid, silver, zinc and charcoal. The purified gold is sold at Tk. 7,000 per tola mainly to jewellers.

Bullion traders can prepare different qualities of gold, viz. 14, 18 or 21 carat gold as is needed by the market. Preparation of 18 carat gold involves mixing of 2.50 tolas of copper with 10 tolas of gold, while preparation of 21 carat gold involves mixing of 1.25 tolas of copper with 10 tolas of gold. For the gold to maintain any sort of decent quality, not more than 50 per cent to 60 per cent should be added. But the traders are often quite unscrupulous and engage in cent per cent mixing of the metals in order to reap maximum profits.

Credit Operations

The bullion traders make large sales of gold to the jewellers and advance all possible help to them in order to maintain business

continuity. Jewellers obtain about 70% of their credit needs from this source. Credit is offered in terms of deferred payment for sales.

A bullion traders charges at least Tk. 200 per tola in excess of the amount charged for sales against direct cash payments when he sells gold to the jewellers on credit. The duration of credit varies from 15 days to 30 days. Repayments are made continuously and fresh quantities of gold are advanced only if the record of previous repayments is good. No collateral is required on the part of the jewellers; established trust and goodwill provide the required surety. However, bullion traders are reluctant to advance gold on credit to a jeweller who is comparatively new in the line without getting some type of a surety (e.g., a guarantee from an important person, some other jeweller who has established relations with the bullion trader in question, or a mutual friend). Default cases are practically non-existent. In rare cases when a problem is faced with respect to credit repayment, the matter is placed before the Jewellers Samity which offers its mediation. The extent and terms of credit sales by the bullion traders to the jewellers is discussed at length in the next section in which the operation of the retail jewellers is discussed.

Relationship With Other Actors

As will be seen in the next section, about 84,00 tolas of gold valued at about Tk. 57 crores are sold to the jewellers yearly by the bullion traders. About 13,000 tolas out of this consists of new gold supplies entering the gold jewellery system. This amount is procured by the bullion traders principally from the smugglers. Whether the bullion traders procure additional gold for other purposes (e.g. for smuggling out to India, or for purchase of contraband goods in high local demand) is not known. The total

extent of gold procurement by the bullion traders and the modalities of operation could not be ascertained. It is suspected that a small section of the traders are themselves involved in smuggling and have the needed political connections to support them. It is this section that makes the bulk of the profits. Given the illegitimacy of the operations and the uncertainty of the political climate, it is unlikely that this section would invest much in productive activities. The reasonable surmise would be that most of the money is diverted to other illegal operations and otherwise held mostly outside the country.

VI JEWELLERY SHOPS

There are about 500 jewellery shops in Dhaka city. Almost all shops are located in the newer areas of the city such as Baitu.l Mukarram, New Market, Gausia Market, P.G. Hospital area, Mouchak Market and Purana Paltan Supermarket (opposite Jonaki Cinema Hall). Islampur, which once had flourishing jewellery shops has now dwindled in importance in this respect. Table VI. 1 shows the number of shops in some important business areas of the city.

The jewellery shops can be classified as very small, small, medium and large depending on the amount of gold processed per month on average. The distribution is shown in Table VI.2[3/]

Initial Costs

Initial fixed costs involved in setting up a small jewellery shop includes payment for possession value of shop (most of the jewellery shops being on rented premises), purchase of furniture and fixtures, other preliminary expenses such as payments for trade licence, payment to Banik Samity and so on, and purchase of about 30 tolas of gold to start with. Costs come to about Tk. 8,80,000 on average as seen in Table VI.3.

Financing of initial capital comes mainly from own funds. Sources of funds include : (i) previous savings, (ii) sale of assets and (iii) money borrowed from friends and relatives. If the initial stock of gold is procured from a single bullion trader, a part of it (about 20%) may be obtained on credit. Overall, about 15 to 20% of initial capital is usually obtained from borrowed sources (bullion traders, friends and relatives).

Recurring Costs

Recurring costs involve payment for gold and stones purchased for conversion into jewellery, salaries of salesmen, payment of

TABLE VI. 1

NUMBER OF JEWELLERY SHOPS IN DIFFERENT LOCATIONS OF DHAKA

Location	No. of shops
New Market	62
Paltan	20
Chandni Chowk	100
Farm Gate	30
Mouchak	40
Baitul Mokarram	50
Islampur-Kotwali	70
Other areas	150
Total	522

TABLE VI. 2

CLASSIFICATION OF JEWELLERY SHOPS BY SIZE

Size	No. of shops	Percent	Gold processed per month (tola)	
			Range	Average
Very small	287	54.98	0-25	20
Small	120	22.99	25-50	35
Medium	104	19.92	50-100	75
Large	11	2.11	100-200	150
Total	522	100.00		37

TABLE VI. 3

INITIAL COSTS OF SETTING UP A SMALL JEWELLERY SHOP

Item	Cost (Tk.)
Possession of shop	5,00,000
Furniture and fixtures	1,50,000
Other expenses (preliminary)	25,000
Gold (30 tolas)	2,04,000
Total	8,79,000

excise duties (capacity tax), electric bills, various subscriptions, regular payments to Banik Samity, payments for renewal of credit licence (yearly), regular interest payments to bullion traders on credit purchases of gold, and so on. For a small shop processing about 25 to 50 tolas per month (35 tolas on average for the small shops in the sample), the recurring costs per months come to about Tk. 1,44,000 as shown in Table VI. 4.

Purchase of gold comprises about 80 per cent of the total recurring costs. Gold is purchased from two sources, bullion traders and the public. Bullion traders constitute the major source of gold for the jewellers (about 40 per cent of the gold processed). Credit sales are usual, the implicit rate of interest charged by the bullion traders being about 72 per cent per year. On average, about 90 per cent of the gold procured from the bullion traders is bought on credit. The public also sell their old jewellery directly to the jewellers and this source comprises about 10 per cent of the total gold procurement of the jewellers. In purchasing from the public, a discounted price is usually paid on account of the so called impurity of the gold. Essentially, the public is exploited in terms of lower gold price for distress sales. The discount on price varies from 12.5 to 25.0 per cent. Most of the direct sales of old jewellery by the public is, however, made to bullion traders many of whom maintain pakai karkhanas (as seen earlier in Section IV) wherein the gold is refined and resold to the jewellers as Dhakai pucca bearing a price of Tk. 7000 per tola or guinea gold (21 carat) bearing a price of Tk. 6,600 per tola.

Working Capital

All the jewellers invariably complain about persistent working capital problems. Since the purchase of gold constitutes the major element of recurring costs, working capital problems refer mainly to shortage of money for buying raw materials, mainly gold.

TABLE VI. 4

RECURRING (MONTHLY) COSTS FOR A SMALL JEWELLERY SHOP

Item	Quantity (tola)	Price (Tk.)	Value (Tk.)
Gold (purchased from bullion traders)	14.0	6,800	95,200
Gold (purchased from the public)	3.5	5,440	19,040
Payment to artisans	-	-	11,900
Salaries of salesmen (4 at Tk. 200/month)	-	-	8,000
Electricity	-	-	1,000
Shop rental	-	-	500
Others (dues, subscriptions, transport etc).	-	-	3,500
Interest payments on credit purchase (12.6 tolas) from bullion traders	-	-	5,040
Total			1,44,180

Most of the jewellers obtain a major portion of their gold requirements on credit from the bullion traders who extract large amounts from them in the form of interest payments. Such interest payments, made on a regular basis (often every two weeks in order to maintain confidence, keep interest payments low and obtain further supplies of gold on credit), constitute a large element of recurring costs. Large shops are of course less dependent on credit; the absolute amounts involved are, however, quite large. The jewellers feel that they would be greatly helped if bank loans were available to them to finance their working capital needs. As it stands, no jeweller has received any bank loan to finance such needs. It is suspected that the larger jewellers, who are sometimes observed to maintain other businesses as well, may have diverted institutional loans obtained for their other businesses to meeting some of the working capital requirements for their gold business. The extent of this tendency and the amounts involved could not, however, be ascertained.

Short-term working capital financing is also obtained from customers and from artisans. Well-to-do and regular customers are often known to advance money to jewellers particularly when large orders are involved. Artisans are also known to provide advances to jewellers in order to enable them to obtain more gold so that they (the artisans) can in turn get more work. Artisans also provide security money to jewellers against gold given to them for processing. Such security money often forms an important source of short term working capital financing.

The financing of recurrent costs (shown in Table VI. 4) depends mainly on credit purchases from bullion traders. A large part of the gold processed by the jewellers is obtained, of course, from customers who wish to convert their old jewellery into new designs; no costs are involved as far as raw material is concerned. Table VI. 5 shows the major sources of financing of recurrent costs.

TABLE VI. 5

FINANCING OF RECURRING COSTS

Source	Amount (Tk.)	%
Credit purchases from bullion traders	85,680	59.42
Advances from customers	7,000	4.86
Security deposits and other advances from artisans	23,800	16.51
Short-term borrowing (usually from friends and relatives)	7,000	4.86
Own source (reinvestment of profit, savings, etc.)	20,700	14.36
Total	1,44,180	100.00

Gold Procurement

The gold that is processed by the jewellers is obtained from two main sources:

(i) the bullion traders from whom gold is purchased (either on cash or on credit basis) and

(ii) the public who

(a) sell old jewellery to the jewellers usually against cash payments,

(b) sell new jewellery brought into the country under baggage rulles (such sales are not strictly legal and jewellers exploit the situation by offering low prices) - such sales are also against direct cash payments, and

(c) provide old jewellery to the jewellers for reconversion to new designs.

The main sources of gold for the jewellers is depicted in Table - VI. 6. Gold jewellery obtained from customers for reconversion into new designs is seen to constitute a major proportion of the gold processed by the jewellers (about 50 per cent for the smaller shops and 35 per cent for the larger shops). In processing this gold, jewellers make their profit:

(i) by taking service charges which are in excess of the payments made to the artisans; and

(ii) by embodying in the reconverted jewellery a higher proportion of khad (copper mix) than in the old jewellery received - artisans get their due share in the proceeds because of their part in the execution of this subterfuge.

Purchases of jewellery from the public constitute a less important source of the gold processed by the jewellers (10 per cent for smaller shops and 15 per cent for larger shops)[4/]. These are

TABLE VI. 6

SOURCES OF GOLD FOR THE JEWELLERY SHOPS

Source	% of gold processed	
	Very small & Small shops	Medium and Large shops
Bullion traders		
Cash purchases	4	15
Credit purchases	36	35
Public (old and new jewellery)	10	15
Public (old jewellery for reconversion)	50	35
Total	100	100

usually distress sales since people are extremely reluctant to sell their jewellery except in emergency situations. Also, jewellery of older vintage usually embodies a higher proportion of pure gold and the seller knows that he would not be able to purchase jewellery of equivalent quality at the same price when his financial position improves. Jewellers exploit the distress situation by paying lower prices for the higher quality gold offered on the pretext that the quality of the gold is not up to par.

Finally, bullion traders constitute another major source for the gold processed by the jewellers (40 per cent for the smaller shops and 50 per cent for larger shops). Bullion traders in turn obtain gold from a variety of sources as was outlined in Section IV earlier.

Extent of Gold Use

Based on the information in Table VI. 2 and VI. 6, the amount of gold processed per month on average by the jewellers of Dhaka can be ascertained. Details are provided in Table VI. 7. Note that the table provides details of the use of gold in peak months. Peak sale periods are from Agrahayan to Falgun and also during Idd and the Puja festivals. Dull months comprise about four months of the year and are very pronounced in Chaitra, Bhadra and Kartik. Capacity utilization falls in dull months to about 40 per cent of peak period levels.

Table - VI. 7 reveals that about 19,000 tolas of gold are processed every month during peak months by the jewellery shops of the city. Of this amount, about 51 per cent is processed by the smaller shops and about 49 per cent by the larger shops. Smaller shops process on average about 24 tolas per month, medium sized shops about 75 tolas and large shops about 150 tolas. Considering all jewellery shops, the average amount processed per month during peak months by a single shop is about 37 tolas of which about 45

TABLE - VI. 7

AMOUNT OF GOLD PROCESSED PER MONTH ON AVERAGE BY THE JEWELLERY SHOPS OF DHAKA (PEAK MONTHS)

Size of Shop	No. of shops	Amount of gold processed per month on average by jewellery shops in peak months (tola)				%
		Purchased from		Obtained from customers for recon-version	Total	
		Bullion traders	Public			
Very small	287	2296 (8)	574 (2)	2870 (10)	5740 (20)	29.60
Small	120	1680 (14)	420 (3.5)	2100 (17.5)	4200 (35)	21.66
Medium	104	3900 (37.5)	1170 (11.25)	2730 (26.25)	7800 (75)	40.23
Large	11	825 (75)	247.5 (22.5)	577.5 (52.5)	1650 (150)	8.51
Total	522	8701 (16.67)	2411.5 (4.62)	8277.5 (15.86)	19390 (37.15)	100.00
%		44.87	12.44	42.69	100.00	

Note : Figures in brackets refer to average amount of gold processed per enterprise.

per cent is purchased from bullion traders, about 12 per cent from the general public and about 43 per cent is provided by customers for reconversion into new designs.

New gold entering the system for conversion into jewellery comes mainly through the bullion traders. About 83,530 tolas of gold (69,608 tolas during the 8 peak months and 13,922 tolas during the dull months) valued at about Tk. 56.8 crores are procured yearly from the bullion traders by the jewellers of the city. This amounts to an average procurement of 6961 tolas per month during the year. Not all of this, however, is new gold entering the system. The bullion traders also purchase old jewellery from the public which they refine in so called pakai karkhanas and then sell to the jewellers. Some bullion traders have revealed that about 80 to 90 per cent of the gold they sell to the jewellers is obtained from the public in the form of old jewellery. Based on this information and assuming that about 80% is obtained from the public and about 5% from Bangladesh Bank auction sales either directly or indirectly, it would appear that on average about 13,000 tolas of newly circulated gold enters the gold jewellery chain every year. (A minimum estimate is 8.4 thousand tolas and a maximum estimate 16.7 thousand toals). This amount constitutes then a part of the illegal (smuggled) flow of gold. Based on another piece of information, that about 25 per cent of the gold smuggled in is used in the jewellery business and that 70 per cent of the jewellery business is carried on in Dhaka alone, the amount of gold smuggled in would appear to lie in the range of 48 thousand to 95 thousand tolas per year, or about 74 thousand tolas on average. The bullion traders, are, however, unwilling to reveal any information about their yearly gold procurement, source of gold (other than old jewellery from the public) and sales of gold.

Production and Sale of Jewellery

Production of jewellery is geared to consumer needs. Items in demand include necklaces, chains, bracelets, rings, earrings, bangles nose pins and so on. A large amount of gold jewellery is brought in by customers for reconversion into new, specified designs. The jewellers also keep ready-made jewellery on stock and replenish them as they are sold. The display stock also serves as a source of design information for customers and the more popular designs face large demands for replication. The jewellers feel that if they had access to more working capital, they would be able to hold larger stocks of ready-made jewellery that could serve as an efficient advertisement medium for newer designs.

Production of jewellery amounts to about 54 tolas per month (during peak months) per shop on average (about 35 tolas per month for smaller shops, 111 tolas for medium-sized shops and 221 tolas for large shops). Table VI. 8 provides the details with respect to production of jewellery by the jewellers in Dhaka.

Table - VI. 8 reveals that production of ready-made jewellery and made-to-order jewellery (for which gold has to be purchased by the jewellers) accounts for about 65 per cent of the total jewellery production. The remaining 35 per cent is accounted for by the procution jewellery of newer designs from old jewellery provided by customers for redesigning. Average monthly production of made-to--order jewellery and ready-made jewellery is about 35 tolas per enterprise (about 20 tolas for smaller shops, 79 tolas for medium sized shops and 158 tolas for large shops.)

The method of pricing is to weigh the jewellery and charge the going rate on gold and an additional making charge, the amount of which depends on the quality, the design and the gold content of the jewellery that has been ordered and on average comes to about 10 per cent of the value of the gold processed. This applies to ready-made jewellery and all made-to-order jewellery. For jewellery obtained from customers for reconversion, a making charge is taken.

TABLE - VI. 8

MONTHLY PRODUCTION OF JEWELLERY BY THE JEWELLERS OF DHAKA (PEAK PERIOD)

Shop Classification	Monthly production (during peak months) (tolas)		
	Redy-made jewellery plus made-to-order jewellery	Jewellery (reconverted into newer designs)	Total Production
Very small	4706.80 (16.40)	3444 (12)	8150.80 (28.40)
Small	3444.00 (28.70)	2520 (21)	5964.00 (49.70)
Medium	8229.00 (79.13)	3276 (31.5)	11505.00 (110.63)
Large	1740.75 (158.25)	693 (63.0)	2433.75 (221.25)
Total	18120.55 (34.71)	9933 (19.03)	28053.55 (53.74)

Note: Figures in brackets refer to monthly production per enterprise.

Total monthly sales revenue amounts to Tk. 1423 lakhs during peak months or about Tk. 2.7 lakhs per enterprise. About 95 per cent of this amount is obtained from sales of ready-made jewellery and made-to-order jewellery (including making charges) while the remaining 5 per cent is obtained as making charges for the jewellery reconverted into new designs for customers according to their specifications. Revenue from sales is shown in Table VI. 9. Note that about 45 per cent of the total monthly sales revenue of Tk. 1423 lakhs is earned by the smaller shops, 44 per cent by the medium-sized shops and about 11 per cent by the large shops.

Profitability

Based on the figures for costs and returns presented earlier, the profitability of the jewellery units can be assessed. Table - VI. 10 presents information on costs and returns and net profitability.

Considering both peak and non-peak months, net profits per month on average come to Tk. 25,070, Tk. 51,570, Tk. 159,500 and Tk. 335,330 for very small, medium and large jewellery shops respectively. Annual profitability per enterprise is seen in Table VI. 11. The jewellery shops are mostly family businesses with several co-sharers all of whom usually give full-time to the business. For the smaller shops, the income after being split between the family partners does not permit much for reinvestment in the business when due allowance for family consumption needs are made. The smaller jewellers consequently speak vigorously about their persistent working capital problems and would welcome institutional financing for meeting working capital needs and avoiding the exploitative clutches of the bullion traders.

A general discontent is observed among the jewellers against the bullion traders. The reasons are not far to seek. Most of the bullion traders are rich and operate with a minimum working

TABLE - VI. 9

MONTHLY SALES OF JEWELLERY BY THE JEWELLERS OF DHAKA (PEAK MONTHS)

Tk. in lakhs

Shop Classification	Sales of ready-made and made-to-order jewellery (exc. making charge)	Making charges (on RM Jewellery & made-to-order jewellery & on jewellery to be reconverted)	Total sales revenue
Very small	320.06 (1.12)	55.43 (0.19)	375.49 (1.31)
Small	234.19 (1.95)	40.56 (0.34)	274.75 (2.29)
Medium	559.57 (5.38)	78.23 (0.75)	637.80 (6.13)
Large	118.37 (10.76)	16.55 (1.51)	134.92 (12.27)
Total	1232.19 (2.36)	190.77 (0.37)	1422.96 (2.73)

Note: Figures in brackets refer to sales revenue per enterprise.

TABLE - VI. 10

COSTS AND RETURNS AND PROFITABILITY

	Per enterprise per month (Tk. in lakh)			
	Very Small	Small	Medium	Large
Gross Sales	1.31 (0.52)	2.29 (0.92)	6.13 (2.45)	12.27 (4.91)
Costs				
Gold (purchased from bullion traders at Tk. 6800/tola)	0.54 (0.22)	0.95 (0.38)	2.55 (1.02)	5.10 (2.04)
Gold (purchased from public at Tk. 5780/tola i.e. 15% less)	0.12 (0.05)	0.20 (0.08)	0.65 (0.26)	1.30 (0.52)
Payment to artisans	0.12 (0.05)	0.21 (0.08)	0.45 (0.18)	0.90 (0.36)
Salaries of salesmen	0.08 (0.08)	0.10 (0.10)	0.18 (0.18)	0.24 (0.24)
Electricity	0.01 (0.01)	0.01 (0.01)	0.02 (0.02)	0.03 (0.03)
Shop rental	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Others (transport, dues, subscription, fees, payments, etc.)	0.03 (0.03)	0.04 (0.04)	0.05 (0.05)	0.10 (0.10)
Repair and maintenance	0.04 (0.01)	0.01 (0.01)	0.01 (0.01)	0.02 (0.02)
Total Costs	0.91 (0.44)	1.52 (0.70)	3.91 (1.72)	7.70 (3.32)
Interest (on monthly credit purchases)	0.03 (0.01)	0.05 (0.02)	0.11 (0.04)	0.21 (0.08)
Amortization (at 15% assuming 10 years life of project)	0.02 (0.02)	0.03 (0.03)	0.04 (0.04)	0.06 (0.06)
Net Profits	0.35 (0.05)	0.69 (0.17)	2.07 (0.65)	4.31 (1.45)

Note: Figures in brackets refer to the corresponding values for non-peak months.

TABLE - VI. 11

ANNUAL PROFITABILITY PER ENTERPRISE

Taka in '000'

	Net profits (NP)	Fixed costs (FC)	NP/FC (in %)
Very Small	300.8	629.0	47.8
Small	618.8	874.0	70.4
Medium	1914.0	1090.0	175.6
Large	4024.0	2030.0	189.2

capital of Tk. 40 to 50 lakhs. However, they usually do not supply premium quality gold to the jewellers. They also charge high premiums on credit that they offer and on which the jewellers are dependent. Also, with gold import banned, the jewellers have to depend in part on supplies of smuggled gold to which most jewellers have no direct access. Consequently, the jewellers feel that the government should seriously consider the matter of legalizing gold imports (introduce a quota system if necessary) and make institutional financing available to the jewellers.

Prospects

Experienced jewellers believe that the country can earn a huge amount of foreign exchange by exporting quality jewellery. This can be achieved if the government allows import of gold (at least of 24 carat quality) and permits the introduction of new technology by allowing import of pressure machines, dices and designs. The jewellers suggest that the government should:

i) ensure the supply of good quality gold to bonafide jewellers;

ii) help the potential jewellery exporters by allowing them to import pressure machines and dices, and modern design catalogues not only from India (Bombay, Lucknow or Calcutta) but also from Europe;

iii) formulate a guidebook showing the specification and rates for each item of ornament and prices thereof; such books or catalogues would have to show the degree of variation of prices according to the use of different qualities of gold; and

iv) allow the provision of institutional funding to the jewellers.

The above steps would help to set the gold trade and production activities on a right footing. However, the government has remained quite indifferent in this regard. The jewellers have become hoarse demanding gold (auction or sale) from the Bangladesh Bank, whereas the Governor of the Bank claims that the Bank sells gold twice a month through public auction.

VII. THE NATURE AND EXTENT OF INFORMAL CREDIT TRANSACTIONS

The discussion in the previous sections has sought to elaborate on the operation of the major actors in the gold and gold jewellery business -- the bullion traders, the artisans and the jewellers -- and their interaction with the public and with each other. The presence of informal financial credit links is observed to a greater or lesser extent between the different actors and such links were exposed in delineating the operational mode of the various actors.

Detailed information on informal credit flows could not, however, be obtained as the parties were extremely reluctant to divulge information. It was seen that none of the actors involved in the gold and gold jewellery business have ever received any loans from institutional sources for the purpose of their business. Since many jewellers and bullion traders are known to operate other businesses as well, it is suspected that bank financing obtained in the name of these businesses could in part have been diverted to the gold trade. However, the extent of such diversions (if any) could not be ascertained. Moreover, it is not clear how bullion traders finance their purchase of gold from the smugglers - presumably cash payments are involved. In their dealings with the public , both the bullion traders and the jewellers make (or receive) cash payments for the most part. The public is known to obtain credit from bullion traders by pawning their jewellery much of which they eventually lose to the traders on account of their not being able to redeem them in a specified time.

The thrust of informal credit transactions is seen in the relation between the bullion traders and the jewellers. The bulk of the gold purchased by jewellers is obtained from the bullion traders and in these transactions jewellers are seen to rely on credit purchases to a significant extent. Jewellers also obtain credit to some extent from other informal sources such as friends and relatives usually for short periods and with no interest being charged. Direct

moneylending in a traditional sense and the charging of usurious interest rates have not been observed. The nature and size of all informal credit arrangements between the jewellers and other parties could be ascertained to some extent and is elaborated upon in this section.

The jewellers of the city obtain about 45 per cent of their gold requirements from the bullion traders. This amounts to a total monthly procurement of about 8700 tolas during peak months and 3480 tolas during non-peak months, or about 6960 tolas per month on average throughout the year by all the jewellery shops in the city. In this procurement, most of the jewellers, even the big ones, depend largely on credit. For the smaller jewellers, about 90 per cent, and for the larger jewellers, about 70 per cent of the payment to the bullion traders is on deferred basis. While the terms vary for different cases, usually an additional Tk. 150 to Tk. 200 per tola has to be paid for credit purchases from the bullion traders. Repayment has to be made in 15 days. A grace period of another 15 days is allowed on payment of an additional Tk. 7,000 per tola for solid gold called Dhakai pucca and Tk. 6,600 per tola for guinea gold. With credit purchases, Tk. 7,200 has to be paid in 15 days for 1 tola of solid gold while Tk. 6,800 has to be paid for guinea gold. This implies a rate of interest of about 6 per cent per month or 72 per cent per year, if prompt repayments are made. Default is practically non-existent, since future requirements of gold cannot be obtained from the bullion traders unless dues are cleared or an extension granted. In case of extensions beyond 1 month, the penalty could be high indeed in terms of escalating payments. The bullion traders of course extend the credit to their trusted parties and will advance gold continuously as needed provided some payments are made and the trust is maintained. The market in credit being specific to these transactions and confined to these parties, the parties know each other well, and business goodwill serves as a worthwhile collateral. In rare cases of default, the bullion traders

take the matter up with the jewellers' association which mediates in the matter and attempts to bring about a satisfactory resolution of the problem. The loss in goodwill for the jeweller concerned will, however, create impediments for this jeweller in the future in the matter of credit purchases from bullion traders.

The size of informal credit transactions between the jewellers and the bullion traders can be seen in Table - VII . 1. About 5500 tolas of gold are released every month on credit to the jewellers by the bullion traders. Assuming that full repayments are made within the month when an equivalent amount is again released on credit, total amount of informal credit extended by the bullion traders to the jewellers (through credit sales) amounts to about Tk. 3.75 crores, recirculated every month. Interest earnings for bullion traders amount to about Tk. 23 lakhs per month. With a 50 per cent monthly recovery rate and full payments made every 2 months, a further Tk. 1.88 crores of informal lending is involved so that a revolving fund of about Tk. 5.63 crores meets current needs.

The market is of course a segmented one. Bullion traders will extend the credit to jewellers only; this is their way of ensuring a market for the gold they have to sell. Trust and goodwill established over the years are important elements underlying the credit operation. The bullion traders do not normally estend credit to parties other than jewellers. Risk is thereby minimized; transactions costs are low, with monitoring hardly needed and repayments made regularly. At the same time, a valuable service is provided to the jewellers who do not have recourse to credit from any institutional source and would have been hard put to buy required quantities of gold had credit sales by bullion traders not been available.

The jewellers pay in cash for a small proportion of their total procurement of gold from the bullion traders. Also, for their purchase of old or new jewellery from the public full payment in

TABLE - VII. 1

SIZE OF INFORMAL CREDIT TRANSACTIONS BETWEEN THE BULLION TRADERS AND THE JEWELLERS OF DHAKA CITY

	(Monthly average) Jewellery shops:			
	Very Small and small	Medium	Large	All enterprises
Amount of gold procured from bullion traders (tolas)	3180.80	3120.00	660.00	6960.80 (13.33)
Amount procured on credit basis (tolas)	2862.72	2184.00	462.00	5508.72 (10.55)
Amount of credit extended by bullion traders (Tk. in crores)	1.95	1.49	0.31	3.75 (0.01)
Interest received by bullion traders per month assuming regular monthly repayments (Tk. in crores)	0.12	0.09	0.02	0.23

Note: Figures in brackets refer to average per jewellery enterprise.

cash is usually made. Table VII. 2 shows the average monthly cash purchases of gold bullion and gold jewellery by the jewellers.

From Table - VII. 2 it can be seen that about 1452 tolas of gold are obtained monthly from the bullion traders by the jewellers on cash basis. Also, about 1929 tolas of gold jewellery are purchased on cash basis from the public every month on average. Cash payments amounting to Tk. 2.10 crores (Tk. 40,000 per enterprise) are made for gold purchases every month.

For cash purchases of gold, the sources of cash are own funds, borrowed funds, customers' advances and money obtained from artisans as security money. The various sources of cash are detailed in Table VII. 3.

The sources of own funds are stated as profits which are reinvested and also sale of assets in certain cases. About Tk. 1.26 crores (or Tk. 24,000 per enterprise) of own funds are invested for cash purchases of jewellery every month. The proportion of own funds invested is somewhat larger for large enterprises.

About Tk. 42 lakhs (Tk. 8046 per enterprise) is borrowed every month on average, mostly from friends and relatives, to finance cash purchases of gold. Since the repayment period is usually about 3 months, about Tk. 1.26 crores of informal lending (recirculated every 3 months) is involved. The informal market here is again a segmented market; the lenders are not professional moneylenders but have an established bond of trust with the jewellers and willingly lend to them. Interest is usually not charged; trust and goodwill serve as the collateral in such transactions and an expected return flow of like favours in the future serve in lieu of interest.

Customers' advances and security money from artisans amounting to another Tk. 42 lakhs (8046 per enterprise) serve as another important source of funds for making payments for cash purchases of gold.

TABLE - VII. 2

AVERAGE MONTHLY CASH PURCHASES OF GOLD BULLION AND GOLD JEWELLERY BY THE JEWELLERS OF DHAKA CITY

(monthly averages)

	Jewellery shops			
	Very small and small	Medium	Large	All enterprises
Amount of gold procured from bullion traders on cash basis (tola)	318.08	936.00	198.00	1452.08 (2.78)
Amount of gold jewellery Purchased from the public (tola)	795.20	936.00	198.00	1929.20 (3.70)
Cash payments to bullion traders (Tk. in crores)	0.22	0.64	0.13	0.99 (0.002)
Cash payment to the public (Tk. in crores)	0.46	0.54	0.11	1.11 (0.002)
Total cash payments for gold (Tk. in crores)	0.68	1.18	0.24	2.10 (0.004)

Note: Figures in brackets refer to average per jewellery enterprise.

TABLE - VII. 3

SOURCES OF CASH FOR CASH PURCHASES OF GOLD
BY THE JEWELLERS OF THE CITY

(Monthly average)

	Amount (Tk. in crores)	%
Own funds	1.26 (0.002)	60
Borrowed funds	0.42 (0.001	20
Customers' advances plus security money and other advances from artisans	0.42 (0.001)	20
Total	2.10 (0.004)	100

Note: Figures in brackets refer to average per jewellery enterprise.

Customers ordering jewellery are often required to make cash advances; advances are also obtained from artisans who provide cash deposits to the jewellers against gold given to them for processing. Such deposits help to overrun short-run working capital problems in an important way. Some artisans have reported that they also provide advances to the jewellers in order to purchase gold so that they (the artisans) can get additional work.

Future Perspectives

The future perspectives of the sector depend on the direction that government policy would take. If the ban on gold import continues, it is likely that growth of the sector will continue to depend on supplies of smuggled gold. The high profitability and availability of gold on deferred payment basis at interest rates which jewellers can sustain would permit such growth and the extent of smuggling would accordingly increase. If smuggling is effectively curtailed, the jewellers would face a higher gold price which would reduce profitability of their operations thereby leading them to adopt more dishonest means (such as through greater deception of customers than at present through the sale of impure gold) which again would lead to reduced demand and a slackening of the growth of the industry. Alternatively, the government could initiate the proposed gold jewellery export scheme, thereby permitting jewellers and artisans' groups to import gold for conversion to jewellery and re-export. With the existence of a large international market and scope for profitable sales, the jewellers would prefer this route. This would reduce the demand for smuggled gold thereby reducing the extent of smuggling. Also, withdrawal of bans on various commodities (possibly replacing them by high import duties) thereby making these imports free and open would reduce the extent of smuggling and reduce the need for smuggled gold imports to pay for such illicit imports. Government policies can thereby indirectly affect the demand for smuggled gold and reduce the extent of smuggling.

With import of gold permitted, with a freer commercial policy, and with the corresponding reduction in black transactions, the banks would be able to mobilize greater savings from this sub-sector, permitting more funds to be lent out for productive activities.

To permit development of the domestic gold jewellery market, bullion traders/jewellers should be allowed to import gold. Bank financing could be made available to them to pay for such imports. They should moreover be encouraged to lend informally (through credit sales) to smaller jewellers and groups of artisans so that the latter can continue to serve the domestic market effectively. One way of encouraging this would be for the lending bank to allow them a grace period of 15 days to 1 month (the duration of the credit sale) whenever a credit sale is made to jeweller/artisans' group recognized by the bank. The importer would then profit to the extent of the spread between the two lending rates. The importer would be allowed to charge an interest rate on his credit sales sufficient to cover cost of administration and monitoring to yield a significant risk premium.

CONCLUSION

The study has sought to highlight various aspects of the gold trade and gold jewellery business in Bangladesh. The need for credit, the extent of credit available, the sources of credit and the terms of credit were examined. Credit from formal sources has been found to be non-existent. All credit flows are seen to emanate from the informal financial market. Given the question of the legality of many of the transactions involved (e.g., buying and selling of smuggled gold), it is hardly surprising that connections with the formal sector are not sought.

Interesting aspects such as the connections between the bullion traders and the smugglers and the hundi agents, the modalities of the transactions and the financing methods could not be elucidated on account of a complete lack of information. In fact most bullion traders claim that their only source of gold is old jewellery that they purchase from the public and subsequently refine. The bullion traders were completely tight -- lipped regarding their activities. That a large amount of gold is smuggled into the country is evident from the increasing extent of seizures of gold by the customs authorities of smuggled gold in payment for other smuggled goods brought in by ships. The mushroom growth of gold jewellery shops over the last few years points to the availabiligy and use of smuggled gold by the jewellers. Since the bullion traders comprise the main source of gold for the jewellers, their connection with the smuggling operations is apparent. The extent of smuggling, the amount of smuggled gold entering the gold jewellery system and the amount diverted to other uses could not however be categorically ascertained.

Useful information could however be obtained from the goldsmiths and the jewellers regarding their operational methods and financial needs. It is seen that the jewellers rely on credit purchases from the bullion traders for a large part of their gold requirements. Such input credit is offered by the bullion traders on a continuous

basis to the jewellers at an implicit rate of interest of about 72 per cent per year, the jewellers making regular repayments and picking up fresh stocks of gold as required. It is clear that such informal financing serves an extremely useful purpose helping the jewellers to meet their working capital needs and at the same time allowing the bullion traders to have a continuous outlet for disposing off their stocks of gold, a large portion of which comprises illegal supplies. While the retailers complain about undue exploitation by the bullion traders, it is clear that they in turn exploit the artisans in terms of low payments and the customers in terms of inferior quality of the gold, making large profits in the process. Under the present circumstances, the interest rate charged by the bullion traders would in a sense appear correct -- from the bullion traders point of view there is the risk of dealing with illigal supplies and the necessity for covering some of the risk, there is also the necessity for quick and efficient disposal of gold supplies; from the jewellers' point of view, there is a large marginal opportunity cost in terms of foregone profits in terms of not accepting such gold supplies at the rate offered; the interaction of such factors do form a basis for bargaining and set the interest rate at reasonable levels. The market is of course a segmented one; there is no access to funds from outside this system; consequently the extent of competition is limited.

However, evidence of interest rate structures in other segmented informal financial markets indicates that the interest rate charged are about the same and often more; consequently, it would appear that increasing the extent of competition through integration of the submarkets would not help reduce the interest rates currently charged in the gold sub-market. The bilateral monopoly situation prevailing between the bullion traders and the jewellers on account of the factors mentioned earlier creates stands for mutual bargaining that sets the interest rate at an appropriate level.

In this situation, strict curb on smuggling would, by reducing gold supplies, serve to increase gold prices and also the rates of interest charged by the bullion traders, and would affect the gold jewellery industry adversely. Such intensified anti-smuggling measures should accordingly be accompanied by a withdrawal of the ban on gold imports (introducing a quota system for the registered traders and jewellers if considered necessary) and by measures that make institutional financing available to the jewellers. The introduction of a jewellery export scheme that would allow imports of gold for the purpose of processing into jewellery and exporting the jewellery would serve to keep the industry humming at a high level of activity, obviate the need of jewellers to procure illegal supplies of gold, keep interest rates low, and help to earn valuable foreign exchange for the nation. There is indeed a large market for gold jewellery in the Middle East and in the West at present being exploited by jewellers from India, Pakistan, Sri Lanka, Thailand and Singapore among others. It is time that Bangladesh jewellers be given the opportunity to enter the international market.

FOOTNOTES

1. One biscuit of 22 carats is 1.3" long, 1" broad and 0.25"-0.50" thick and weighs 10 tolas.

2. The bullion traders claim that they are not aware that such auction sales are conducted on a regular basis and that such sales are never publicized. However, it is clear that bullion traders do obtain gold from this source, albeit indirectly, through purchases from 'favoured' persons who are aware of such auctions and benefit from them.

3. The distribution shown in Table VI. 2 is based on percentages suggested by a number of knowledgeable informants and may be subject to some amount of error. Time and resources available for this study did not permit a full-scale census.

4. Retail shops in old Dhaka can be seen to hang a piece of red cloth (lal shaloo) on a side wall. This serves as a signal to persons who are prospective sellers of old or new ornaments or gold (legal or illegal). The law enforcing agencies receive certain amounts at regular intervals from these shops in exchange for 'protection'.

ANNEX

Study on Urban Informal Financial Market

INDICATIVE TERMS OF REFERENCE

INFORMAL FINANCIAL MARKET AND THE GOLDSMITHS/GOLD MERCHANTS IN BANGLADESH

Development of formal financial sector institutions (especially banks) in the western countries owes, to a large extent, on the operation of goldsmiths and merchants who over time expanded their sphere of operation by owing pawnshops, accepting deposits and printing promissory notes. In pre-partition Bengal (Bengal before 1947), a particular caste of Hindus (the baniahs) thrived on trading and operation of pawnshop. Coldsmiths in the rural areas also operated pawnshops, mostly accepting gold as the item to be traded. A few gold traders/merchants, and baniahs overtime started operating private banks. But with partition most such activities declined. The western model of the emergence of formal financial institutions from informal transactions failed to provide a guide for the emergence of the formal financial sector in post-partition Bengal. Instead, a formal sector, fashioned after western type of financial transactions, was grafted in the economy, and this sector developed without taking due note of the needs of the small scale sector. Consequently, a large part of the economy failed to integrate itself with the formal financial sector, leaving itself at the mercy of the informal sector.

The Islamic laws which partially regulate informal financial transactions has dampened the development of the informal sector by first equating any kind of interest receipt in the informal sector with usury and second by banning usury. The large scale emigration of baniahs, hindu goldsmiths and merchants, and small scale indigenous bankers caused a set back in the gradual conversion of such intermediation into a more organised activity. The legal restrictions

on informal money transactions created circumstances which are congenial for thriving informal and often "illegal" transactions in gold. Gold being a good commodity for hoarding money and storing values, have also become a lucrative item for smuggling. The prospects of developing informal sector to cater to needs of the growing economy have been set back considerably by putting restrictions on gold trading/goldsmithing activities and putting legal and moral sanctions against 'usury'. But gold being a form of universal 'money' has tended to be used informally to finance illegal activities across national boundaries.

The actors involved with various aspects of gold in Bangladesh can be divided into three categories: bullion traders, jewellery shop owners, and goldsmiths (Swarna Shilpis). Among these, bullion traders can be said to be the main actors controlling a large part of the activities. They are the major purchasers and sellers of gold, often procuring gold from the "black economy" i.e. from illegal importers of gold. There are about 100 or so bullion traders in Dhaka who control a major part of bullion trading in Bangladesh. Jewellery shop owners provide the retail outlet for jewellery while goldsmiths now provide labour to convert gold into jewellery.

This study which recognise that there is considerable illegal transactions in gold in Bangladesh, is not focussed to this aspect only, but examines and reviews in general the informal financial transactions in gold. The role of gold merchants/smiths/jewellery shop owners in financial intermediation will be reviewed, and the mechanisms of intermediation will be examined. The extent of domestic resource mobilisation by this sector and the extent the surplus of this sector financing other activities of the economy will also be looked into.

Methodology

Like other case studies, this study will have to take up an anthropological approach. A considerable amount of initial work will be needed to get into confidence of persons who could provide

relevant information on the gold trade. The researcher could get initial reference through the Gold Bullion Traders Association and Swarna Shilpi Association, as well as Jewellery Shop Owners Association.

Instead of the interview method, the researcher could use the dialogue method for collecting information. The issues will have to be well thought out and clarified before the dialogue is held. However, the researcher could undertake a select interview of 25-50 gold merchants/smiths.

On the basis of data gathered, assumptions and circumstantial evidences, the researcher should attempt to estimate the size of the gold trade, its trend, channels, etc.

Specific TORs for the Study

Among the other things, the TORs of the study includes:

1. Size and trend of the activity (volume of gold traded/converted) with a brief historical account.
2. Geographic distribution/concentration of the activity.
3. Gold trading channels and conversion into jewellery.
4. Financial needs/flows of different categories of actors e.g. bullion traders, jewellery shop owners, swarna shilpis.
5. Surplus fund and its uses.
6. Deposit taking/pawn brokerage activities, if any.
7. Gold hoarding/safe keeping of black money.
8. Future perspectives of the sector and its relation with other sector.
9. Gold trading/smithing activities and their possible impact on the financial sector development in Bangladesh.
10. Concluding remarks, and recommendation for efficient development of informal financial sector.