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Historically bad toxic loan situation makes govt creative

Sketches a draft act to form company to take on soured assets

AKM ZAMIR UDDIN

The government is homing in on forming a public asset management company (PAMC), a brainchild of Finance Minister AHM Mustafa Kamal, as part of its efforts to redress the financial sector that is fast approaching a losing battle against default loans.

The finance ministry has already prepared a draft act titled "Bangladesh Asset Management Company Act" to purchase default loans from banks and sell them off to individuals or corporate entities.

Work on enacting the draft law is going on at bullet speed given the escalating trend of default loans in banks, said four officials of the government and the central bank involved with the process.

Until September last year, default loans in the banking sector stood at Tk 116,288.31 crore, up 23.82 per cent from nine months earlier.

"Our first objective is to enact a full-fledged law within the quickest possible time. But it will take at least six months more to make the PAMC functional," said a Bangladesh Bank official on condition of anonymity as he is not authorised to speak to media.

PAMCs have been deployed in a handful of countries with the view to bringing down default loans. But the result has been mixed.

South Korea and Malaysia saw the greatest success with the model, with their recovery rate being 46.8 per cent and 58 per cent respectively. The recovery elsewhere is less than 30 per cent.

It is the success of the two countries that have encouraged the government to form the PAMC, the BB official said.

The company will kick off its operation with an initial paid-up capital of Tk 5,000 crore.

"The amount of paid-up capital will be increased from time to time. If required, funds will be raised by way of issuing bonds in the capital market," according to the draft act.

The PAMC will be allowed to ink agreement with both local and foreign institutions in order to increase its capital and funds.

The Asian Development Bank has already showed its interest in providing financial support to the government in setting up the PAMC.

The Manila-based development lender has already given different types of technical support to the government to this end.

"We will be happy to provide financial support if the agency receives proposal from the government," Manmohan Parkash, country director of the ADB, said in a conference on November 26 last year.

The PAMC will take over the default loans, including collaterals such as lands and industrial plants of defaulters.

An official of the finance ministry said the government has yet to prepare a business model for the PAMC. "Different methods are now being considered," he said.

The company may take the default loans off the banks' hands in exchange for special bonds that would have certain maturity, enabling the lenders to keep provisioning for bad loans.

In some cases, the company will restructure the mortgaged assets and industrial plants after taking over those from banks.

The restructured assets will be sold to local and foreign investors by arranging an auction, the official said, adding that the PAMC will even sell the default loans directly if there is interest.

Besides, advisory support will be given to clients so that they will not face any trouble by holding the toxic assets.

In order to make the PAMC vibrant, a secondary market for default loans will be created, where people would be allowed to buy and sell default loans, the official said.

As per the draft act, the government will form the board of directors of the PAMC comprising of 13 members, of which 12 will come from the different government agencies and the rest from the Federation of Bangladesh Chambers of Commerce and Industry.

The tenure of the board will be three years and a member will hold his/her directorship for a maximum of two times in a row.

The central bank will be empowered to monitor the PAMC's operation and it will prepare regulations on how the company will run as well.

The PAMC, which will enjoy tax rebate facility on its income, will be allowed set up a number of branches in different parts of the country.

The company could invest its income in profitable sectors like banks and non-bank financial institutions.

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Make prompt LC payment or face the music

BB warns banks

STAR BUSINESS REPORT

The central back yesterday instructed banks to make their import payment to corresponding foreign banks on time or else strict actions will be taken against the errant lenders.

A good number of banks have recently showed an unwillingness to make import payments on time, which has had an adverse impact on the country's international image, according to a study done by the Bangladesh Bank.

A BB official said that the monetary authority had earlier imposed penalties on certain banks, which helped bring in corporate governance.

"But the lenders have started the malpractice once again. This time the central bank will have a zero tolerance policy against them," he added.

Senior bankers welcomed the initiative, saying that many foreign banks are reluctant to accept letters of credit (LC) issued from Bangladesh as a few local lenders frequently breach the terms and conditions while making payments.

The banks are also forced to pay additional interest to their corresponding lenders due to their failure to settle LCs promptly.

Besides, the confirmation charge for LCs is also on the rise as a result of the added pressure on the country's foreign exchange reserve.

Confirmation fees are a security mechanism that eliminates risks for exporters.

When exporters are not comfortable with the LC-issuing bank, usually due to insolvency risks or local political factors or sometimes both, they may seek an additional guarantee for the LCs.

Malpractice in the industry has also had a negative impact on the country's balance of payments, according to the BB notice to all banks.

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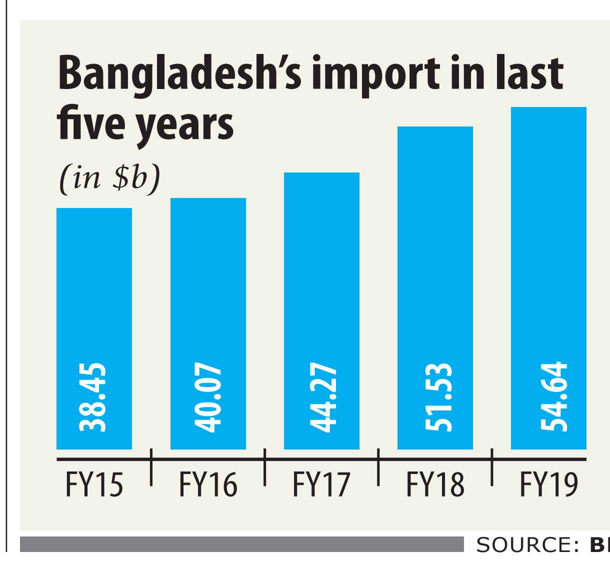

Political commitment holds the key

Experts say at Bangladesh Development Forum

STAR BUSINESS REPORT

Political commitment is a must to help Bangladesh become a self-reliant nation, said a senior official of the World Bank Group.

"You will not need a development partner if you have a very strong and efficient banking sector," said Ilias Skamnelos, lead financial sector economist of the FCI under the World Bank Group.

He spoke at a session on "Innovative Financing for a Self-reliant Bangladesh" at the two-day Bangladesh Development Forum 2020 at the Bangabandhu International Conference Centre in Dhaka yesterday.

The government should think of how to leverage the tools to make the development partners irrelevant. It should determine what makes more sense – direct interventions or incentives for the private sector, he said.

Skamnelos said the issue of default loans should also get more focus.

If a solution can be brought to the default loan problem, then a sizable amount of capital will be freed up, which can be lead to lower interest rates, he said.

Skamnelos suggested the government should develop a strong supervisor for the banking sector.

"And moreover, steps should be taken for a healthy capital market."

The government can build more institutional investors for the sake of the stock market.

A report of the General Economic Division of the Bangladesh Planning Commission estimated that an additional investment of $928.48 billion (at fiscal 2015-16 constant prices) would be required for the implementation of Sustainable Development Goals, said Monowar Ahmed, secretary of the Economic Relations Division.

	Challenges	Way forward
Public expenditure and national priorities	• Allocative efficiency among sectors • Performance of SOE's	• Improving strategic resource allocation • Strengthening links between planning and budgeting processes • Enhancing operational efficiency in SOE's
Revenue	• Government revenue to GDP ratio is low • Large informal sector: avoidance of tax	• Widening tax base through automation and training • Integrated budgeting and accounting system, effective and efficient use of IBAS-platform
Private sector development	• PPP initiatives are yet to tap the potential • FDI is very low	• Entrepreneur development program • Improving WB's doing business indicator • Dedicated 100 economic zones and 28 IT parks
ODA	• Lack of harmonisation, aid fragmentation and lack of ownership • High dependence on foreign consultants, who is many cases lack in understanding	• Partnering with DP's under Busan agreement • Designing projects through effective consultations • Finding need-based home-grown solutions

As such, the average annual investment required for SDG implementation would be $66.32 billion during the period, he said in the session chaired by Planning Minister MA Mannan.

The GED identifies broadly five potential sources of financing: private sector financing (42.09 per cent), public sector financing (35.50 per cent), public-private partnership (5.59 per cent) and external financing (14.89 per cent).

Development partners need to mobilise private capital to achieve the SDGs through innovative financing. This may include practices as diverse as blended finance, impact investment and financial inclusion drives, Ahmed said.

The development partners therefore need to engage the private sector for development results in two major ways: engaging, primarily large and international, companies around their business activities in developing countries; and mobilising private capital for development purposes, to complement public financing.

Bangladesh has been a success story. But the government should not forget that the abundance of cheap labour will no longer be available with the economic growth, said Yutaka Yoshino, programme leader for equitable growth, finance and institutions of the World Bank.

He made the comment in another session titled "Private sector engagement and trade facilitation".

He also stressed the need for rationalisation of the supplementary duty and the importance of increased focus on bonded warehouse.

"There are so many opportunities left for Bangladesh and there are many areas to grow," said John Smith-Sreen, economic growth office director of the USAID.

The government should find out sectors other than garment, where the economy can grow, he said, adding that more focus should be given on the agro-processing, healthcare, pharma and tourism sectors.

The ERD should put forward an action plan on how to make most of the Bangladesh Development Forum, he added.

There is a lack of coordination among different ministries and divisions, said Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association.

Despite conducting meetings alone, all the efforts should be stitched together to bring a good result, she said.

Shamsul Alam, member of the GED, presented the outline of the eighth Five-Year Plan at a session on "Effective partnership for implementing the 8th five-year plan aiming towards achieving SDGs".

To help materialise their plans, the government will require Tk 7,741,800 crore in investment over the next five years, about 75 per cent of which will come from the private sector while the rest will be publicly funded, he said.

Although the role of development partners has become less significant over time, they are still considered as major players as far as socioeconomic development is concerned, he said.

"Bangladesh is very good in debt repayment," said Md Tajul Islam, LGRD minister.

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Korean firm seeks 700 acres urgently

As its Myanmar investment plan unravels

JAGARAN CHAKMA

Korea Industrial Complex Corporation (KICC) is urgently seeking 700 acres of land in Bangabandhu Sheikh Mujib Shilpa Nagar that it intends to start developing from June.

It aims to bring in South Korean textile, leather and jewellery manufacturers with an initial investment of $500 million.

KICC investment plan

- Area of land 700 acres
- Interested companies 200
- KICC to start work in June 2020
- Initial investment $500 million

Existing Korean investment in Bangladesh $1.15 billion

Bae-Ho Cho, chief executive officer of the South Korean industrial infrastructure developer, also sought to know by February 15 if the land in Mirsarai can be leased out to them at a lower price.

The KICC has already conducted feasibility studies on the land they expect and is ready to make advance payments if necessary to expedite the allotment.

"We will provide land but are not sure how much we will be able to provide," said Paban Chowdhury, executive chairman of the Bangladesh Economic Zones Authority (BEZA), after the CEO met him for a third time on January 20.

The CEO showed keen interest for investment and does not want to waste time, Chowdhury told The Daily Star.

The KICC earlier informed that it was focusing on Bangladesh after facing setback in developing two industrial parks at Bago and Mun states in Myanmar since 2013 for a scarcity of power and water.

South Korean companies want to shift factories to Bangladesh to gain a competitive edge in context to prices in the global market while availing better utility services and infrastructure, Chowdhury said.

He further said many South Korean companies including Saumsung and LG were already present in Bangladesh and they too were looking for separate industrial parks to expand.

The BEZA has already allocated separate industrial zones for investors of Japan, India and China and development work of those have already started, he said.

During a visit to Bangladesh in July last year, South Korean Prime Minister Lee Nak-yon also expressed eagerness to invest in infrastructure, power, ICT, construction, shipbuilding and energy sectors of Bangladesh.

Over 150 South Korean companies have invested a total of $1.15 billion in Bangladesh, making the East Asian country the fifth highest investor, according to the Bangladesh embassy in Seoul.

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