

New credit guarantee scheme approved by Bangladesh Bank

Necessary, but not sufficient

TASNEEM RAIHAN

In a bid to support the cottage, micro, and small enterprises (CMEs) mired in financial difficulty caused by Covid-19, Bangladesh Bank approved a credit guarantee scheme (CGS) worth Tk 20,000 crore on July 23, 2020. Subsequently, the CGS Unit of BB issued a circular on July 27 defining the scope and detailing other aspects of the scheme such as, the eligibility criteria for scheduled banks and financial institutions (FIs) as well as for enterprises, application procedure, fee structure, responsibilities of the scheduled banks and FIs, claim settlement, etc. Following the implementation of the scheme, CMEs which fail to meet the collateral requirements of the banks or other FIs, can be provided with the support from the CGS. Although late, it has responded to the long-standing market demand for such a scheme providing third-party credit risk mitigation to CME lending institutions.

The timing of the CGS introduction marginally follows those introduced in Kenya and Colombia. At a time when credit risk is heightened and lenders have become more risk-averse, especially when it comes to lending to the CMEs, the introduction of CGS holds promises. However, I would like to discuss several factors that the Bangladesh Bank should consider in order to ensure that the CGS achieves its expected goals.

The CGS in Bangladesh, modelled as a Hybrid Portfolio Partial Credit Guarantee Scheme is, in general, a well-designed scheme that ensures all parties have a *skin in the game*. To avail themselves of the CGS facility, first, banks and non-bank financial institutions (NBFI) have to apply for participation in the CGS programme. After signing up for a 5-year long agreement, FIs will have to pay an initial annual fee called guarantee fee of 1 percent of the total value of an individual loan to avail themselves of the guarantee for that loan. This fee will be lower for subsequent years for a guaranteed loan if the FIs can maintain a non-performing loan (NPL) rate of 5 percent or less. If a loan under the CGS goes bad, a participating FI will get 80 percent coverage of a credit given to an individual or a company while the FI will have to bear the risk of 20 percent of the loan amount. While assessing loan applications, FIs are required by the CGS to stick to their internal loan policies. While the newly introduced CGS is predicated on these conditions, there are other nitty-gritties of the scheme that an interested reader can easily look up from BB's SMESPD Circular No 03.

While the design of the CGS is mostly in line with international best practices, there is an opportunity for the CGS to benefit from certain reparameterizations. One of the main eligibility criteria that an FI needs to fulfil to be able to participate in the CGS is a minimum of 3 years of SME lending experience. While the intent is clear from BB—ensure that the guarantee is available to appropriate FIs which know how to deal with SMEs—the policy does not provide a clear guidance as far as the definition of “SME lending experience” is concerned. Will an FI that has been lending to SMEs for 5 years, with SME loans constituting only 0.05 percent of their portfolio, be eligible to participate in the scheme? Let's assume that the answer to this question is yes. Next consider another FI which started lending to SMEs only 2 years ago, but already has an SME portfolio that accounts for 10 percent of its total loan portfolio. Why would the second FI not be eligible for the CGS facility despite having a larger share of SME portfolio? These are some practical issues that may arise down the line and BB need to consider them ahead of time to avoid hiccups during full-fledged rollout of the scheme.

Another CGS eligibility criterion for FIs stipulates that only those FIs which maintained an NPL rate of 10 percent or less in the preceding year will qualify for CGS participation. However, this criterion along with the aforementioned one do not apply to state-owned banks. This has an important implication for creating a non-level playing field for banks. In particular, this sends a

wrong signal to the market where commercial banks may see themselves at a disadvantage in comparison with the state-owned banks. To put it differently, a state-owned bank with subpar performance receiving a guarantee fund will cause a crowding-out effect on the funds that could be made available for better performing non-state-owned FIs. Moreover, this differential policy may further exacerbate the *moral hazard* that state-owned banks in developing countries often exhibit. As a minimum, BB may consider imposing conditions on state-owned banks (with NPL rate exceeding 10 percent) to improve

not find it financially attractive to lend to small borrowers if they have to resort to legal recourses when these borrowers default. As a result, the CGS may fail to support the most underserved section of the borrowers. In this regard, BB may follow the CGS policy germane to claim settlement process stipulated by the government of India. According to India's CGS policy, “initiation of legal proceedings as a pre-condition for invoking of guarantees shall be waived for credit facilities having aggregate outstanding up to Rs 50,000, subject to the condition that...a Committee of the Member Lending

the banks which have become more risk-averse in terms of lending to the SMEs during the pandemic. While one-time seminars or workshops are useful to introduce the new facility, FIs should be communicated to at different levels (CEO, manager etc.) on a regular basis such that they can retain their trust in the CGS facility. The same is true for CMEs which are the target of the scheme in Bangladesh.

While CGS has the potential to channel funds to the section of the economy which has limited access to finance, it is not a panacea for all CMEs. Reportedly, more than 90 percent of the CMEs in Bangladesh are informal which are not registered with any government authority and do not maintain any financial records. As a result, these CMEs are highly unlikely to benefit from the newly implemented CGS since commercial banks do not usually lend to informal businesses because of higher perceived risks. In order to ensure that these CMEs can obtain support from CGS soon enough, the government should consider designing, revamping, and aggressively implementing financial literacy programmes around the country which will encourage more CMEs to become formalised.

Finally, the government may consider enacting a Secured Transaction Law as has already been done by several African countries (and also some Latin American and Southeast Asian countries) with Ghana being the pioneer. This will allow the establishment of a collateral registry that will enable FIs to register their claims on assets pledged as collaterals by borrowers. This will abate the FIs' concerns over the same collaterals being pledged by the borrowers at different FIs simultaneously. In addition to immovable properties such as lands or buildings, the law will also allow movable properties such as laptops, accounts receivables, inventories, etc. to be used as collaterals for loans. Such a collateral registry may not only lead to a reduction (probably a small one) in the risk premium charged by the FIs but will also encourage FIs to increase their lending activity in the CSME sphere without financial support from BB. This is an opportune time for the Bangladesh government to facilitate the establishment of the collateral registry which can be another milestone to achieve following the rollout of the CGS.

Dr Tasneem Raihan is a Bangladeshi-American Financial Economist working at the Public Company Accounting Oversight Board (PCAOB), USA, and previously taught at the University of California, Riverside.



their internal control and loan underwriting policies before allowing them to avail themselves of the CGS facility.

Another design related aspect that needs attention is the claim settlement process when a guaranteed loan defaults. The success of any CGS scheme depends critically on the ease of this process. In order to encourage the FIs to use CGS, the claim settlement process should not be complex, time-consuming, or costly. In line with international best practices, the CGS in Bangladesh requires the lending institutions to make all possible efforts to recover a loan as they would have done for non-guaranteed loans. In addition, the lending institutions are required to file cases according to the Money Loan Court Act 2003 (Artho Rin Adalot Ayeen 2003). However, this requirement may act as a deterrent to issuing small loans by FIs.

Commercial banks, in particular, may

Institution (MLI) headed by an Officer not below the rank of General Manager should examine all such accounts and take a decision for not initiating legal action, and for filing claim under the Scheme.” Bangladesh Bank should also consider establishing such a threshold aggregate outstanding for credit facilities.

In order to ensure that lack of interests do not mar the potential of CGS in Bangladesh, a strong awareness raising campaign should be designed and implemented to inform both the supply side and the demand side of the CGS facility. Otherwise, information asymmetry between the lender and prospective borrowers may lead to suboptimal usage of the CGS funds. In this regard, Bangladesh should take lessons from recent international experiences. For example, Colombia launched a partial CGS in April 2020 which still has not been able to sensitise

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What causes the inequality in life-expectancy between men and women?



M ZAKIR HOSSAIN

WOMEN are sometimes considered to be the weaker sex because men on average are taller, more muscular, and seemingly stronger than women. Medical

science, however, has a different story to tell us: women are biologically stronger than men. In all countries across the world, women consistently live longer than men on average. This is also true for many other species of mammals.

The natural sex ratio at birth is male-biased, with 105 boys born on average against 100 girls on a global level. As the offspring grow up, males die in greater numbers than females at any given age, leading to a more balanced sex ratio in adult age. The population sex ratio again reverses in old age, with women outnumbering men in most countries. Consequently, around 90 percent of all supercentenarians (110-plus years old) living on the planet today are women.

The ongoing coronavirus pandemic further reminds us of the gender gap in mortality. In countries with available data, Covid-19 has been found to be killing more men than women (*The New York Times*, February 20, 2020). In Bangladesh, the number of deaths from Covid-19 is nearly four times higher among men compared to women. The higher prevalence of fatal diseases in men and the stronger immune system in women are presumably driving the gender differences in Covid-19 mortality globally.

Women usually report more psychological problems while men suffer more from severe and life-threatening illnesses like heart diseases, stroke and cancer. These diseases are the major killers of our time and the main culprits for premature deaths and gender gap in mortality worldwide.

Women face gender discriminations at every sphere of the society, which limit their potential to maximise health and wellbeing. Yet, women paradoxically seem to be the healthier sex. The mechanisms that underlie the gender-health paradox are complex and not fully understood. Several biological and social mechanisms are suggested as explanations.

From a biologic point of view, men

are naturally programmed to die earlier than women at the very moment of conception. Available evidence indicates that the male foetus is biologically weaker and more vulnerable to pregnancy complications than the female foetus. Moreover, the neonatal and infant mortality rates are higher in boys compared to girls. These sex differences at birth provide the foundation for the biologic explanation of male disadvantage in life-expectancy.

The sex hormones are argued to play a crucial role in the female advantage in longevity. The female sex hormone oestrogen is protective of cardiovascular diseases and is partly responsible for lower incidence of such diseases in

excess fat in the hips and thighs. Any excess fat is harmful, but abdominal fat is more dangerous for cardiovascular health.

Genetic disorders are sometimes held responsible for excess mortality in men. A damaged gene on the X chromosome can be naturally compensated by a similar gene in the second X chromosome in women, but not in men due to the lack of double X chromosomes. The higher infections, congenital disorders, and deaths in male babies are possibly an expression of their lack of double X chromosomes.

Furthermore, the mitochondrial DNA, which is known as the powerhouse of cells and is believed to be exclusively inherited from the mother, leads to

months per year (i.e., 6 hours a day) from 1841 to 2000. However, it increased at a much slower rate in men than in women, resulting in a wider gender gap.

Men are more exposed to work-related stress and unhealthy behaviours, e.g., smoking and alcohol abuse, which are responsible for their lower longevity. Furthermore, men are typically disadvantaged by occupational hazards and so-called masculine behaviours that are highly risky. As a result, they die disproportionately in work-related accidents, car crashes, war, and sporting activities.

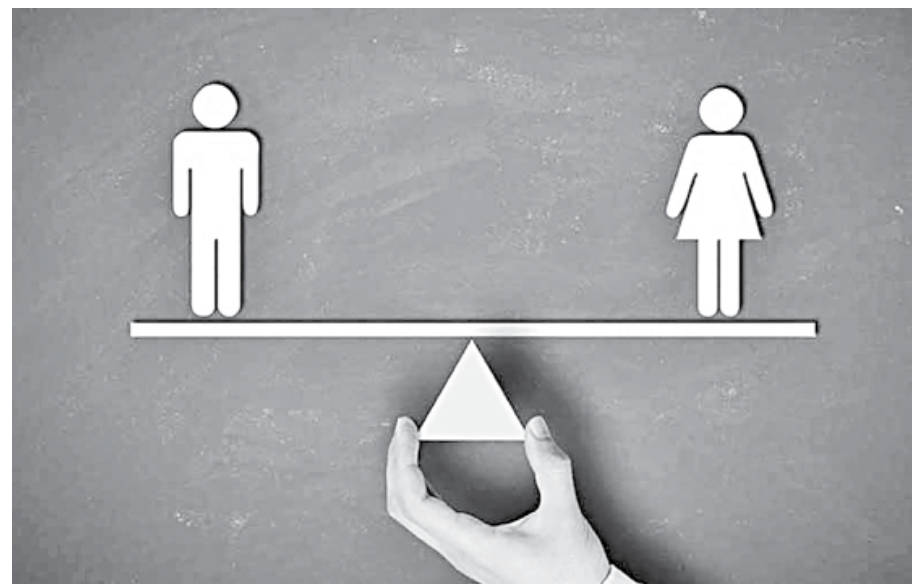
The male sex hormone testosterone is believed to be responsible for predisposing men to risky behaviours. This is why, perhaps, research finds a link between marriage and increased life-expectancy in men but not in women. Marriage protects men from risky social habits whereas women are less prone to risky behaviour regardless of their marital status.

Compared to the past, the gender gap in global life-expectancy has narrowed in recent years. This is unsurprising given that women are increasingly entering the workforce and adopting health-damaging lifestyles like smoking and drinking. An interesting case in point is Sweden where females smoke more than males and the male-female longevity gap is relatively low. Improved medical management of fatal diseases might also have contributed to the reduced gap.

Women are evidently the healthier sex and real champions in the ultimate game of life. Nature has given women a biological advantage over men, perhaps to compensate for the structural disadvantages they experience in the society. Biology is, of course, only a part of the full story since it cannot answer why the female advantage in life expectancy would fluctuate over time.

The biological gap in life-expectancy between women and men is a natural destiny which no society can avoid. However, the social gap in life-expectancy is unjust and unfair. We can rarely alter our biological make-up, but we can certainly promote healthy lifestyles and design a society where both men and women will have a fair chance to maximise their health potentials.

M Zakir Hossain is a Managing Editor at the European Journal of Public Health, Oxford University Press, UK and a PhD fellow at Karolinska Institute, Stockholm, Sweden.



women until menopause. By contrast, the androgen hormone, which is higher in men, is associated with higher risk of cardiovascular diseases.

The stronger female immune system is another factor that could contribute to the longevity gap. Female bodies are known to produce larger amounts of antibodies compared to males. This offers females an increased capacity to fight off respiratory, bacterial, and viral infections including the deadly Covid-19.

Moreover, female bodies carry higher amounts of the beneficial cholesterol (HDL) which protects against heart diseases. Men are disadvantaged even in the distribution of fat because they tend to accumulate excess fat around the stomach while women tend to carry

male-specific harmful mutations in the mitochondria. The mitochondrial dysfunction is associated with ageing and chronic diseases.

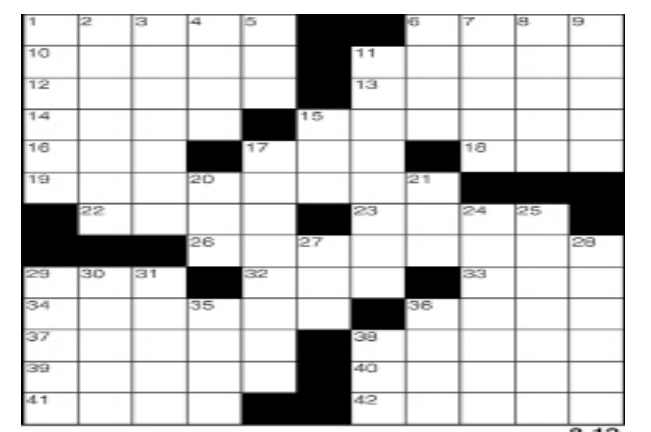
If biology were the sole cause behind the gender gap in life-expectancy, one could expect the gap to be relatively constant over time and across societies. However, the gender gap in life-expectancy considerably varies by time and contexts, suggesting that social forces are in operation to drive the trends. For instance, a Bangladeshi boy born today is expected to live 3.8 years shorter than a girl while the corresponding male-female gap is 10.5 years in Russia.

Thanks to medical advances and improved standard of living, global life-expectancy linearly went up by three

CROSSWORD BY THOMAS JOSEPH

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