Defaulters' List of Banks: An Anatomy

Ahmed Kamal Khan Chowdhury

If the banking sector fails to tackle the situation arising out of huge bank loan defaults, the country's economy would face a disaster of far greater magnitude than that of the recent catastrophic cyclone.

THE list of defaulters having overdue loans of Tk 2.5 crore and above were published in the daily newspapers in late May by Bangladesh Bank have shaken the entire banking sector. The outstanding amount of overdue loan of Tk 2,740 crore approximately have posed a great threat to the growth of the banking system. Information about overdue loan lower than Tk. 2.5 crore is not available. The total involvement therein may far exceed that in the case of larger advances with aggregate limits of Tk 2.5 crore or over.

Out of the overdue loans published in the newspaper, outstanding of Government Sector is Tk 1,123 crore (approx.) and that of private sector is Tk 1,617 crore (approx.). Overdue loans diminishing the return on money and the economy is experiencing rising prices of goods and services. If the banking sector fails to tackle the situation, the economy would face a disaster of far greater magnitude and tragedy than that of the recent catastrophic cyclone that hit the coastal area of the country.

In spite of these odds people still have their confidence in the banking system. Therefore, before it is too late the problems should be tackled with speed and steadfastness. A close study of the overdue loans would reveal the following common features:

— Present system of advances on security and guarantee led to overfinancing and indiscipline among borrowers.

— Lack of proper norms, supervision and control in the banking sector given scope to the borrowers to divert the loan for different purposes than originally approved for.

— Insufficient supervision and control by the regulatory bodies and delay in execution of court cases for foreclosure of security for settlement of overdue loan have developed a tendency to overrule the law and hampering the recovery process of the banking sector.

— Negligence and dishonesty in banking sector in collusion with borrowers.

Bangladesh Bank have put an embargo on extending further loan and advances to the borrowers whose name have appeared in the defaulters list, unless a satisfactory arrangement is arrived at between the banks and the borrowers. This satisfactory arrangement may have hinted to granting moratorium to the borrowers with extended repayment schedule. Already the Government projects particularly in the Jute Sectors have been given moratorium of 3 years followed by 10 years repayment schedule. The above steps have dealt with the result and not the causes. Though these are of long term nature, the following steps may be considered to arrest the accumulation of overdue loans:

a) Financial Discipline

Instead of concentrating entirely on security aspects there should be a qualitative change in the credit report to stop overfinancing and overtrading. Advances should be considered on the total study of the borrowers operations. Credit reports should highlight aspects of borrowers ability, inter-corporate lending, existing credit limits from the entire banking system, business integrity and willingness to honour commitments. In this connection a data bank may be established by the Bangladesh Bank for organised collection, storage and exchange of credit information among banks. The study of the data will help the banks in improving financial discipline on larger borrowers. The 'Credit Information Cell' of Bangladesh Bank can effectively perform the functions.

b) Credit Norms

Traditional financing analysis of profitability alone can not predict the gathering weaknesses of a borrower. The full and stark picture can be seen from the cash flow analysis. Cash generation ability of the borrower is important. The application of cash flow analysis is not a new technique to examine the financial performance but it is little used by the banks in Bangladesh. In order to examine the cash flow ability cash flow budget should be prepared. The cash flow budget have numerous uses to a lending bank. The most significants are:

— Need based facility structuring
— Fixing drawdown schedules
— Monitoring credit facilities
— End use of funds
— Insight to business performance and conduct of accounts
— Tracking repayments
— Monitoring problem accounts
— Trigger investigations

c) Follow Up, Supervision & Control by the Banks

Parallels may be drawn between health of a people and health of the borrower. For example if a person goes to a doctor early enough the doctor will perhaps be able to prescribe a few pills. If illness are not diagnosed early then it might require certain surgery. However if it were left to an advance stage it would require drastic surgery or even mean death. Therefore banks should remain vigilant and take early action against those loans and advances which are likely to become sticky. The lending banks should monitor the end use of credit according to the purpose for which it was originally sanctioned. Assumption, based on which the lending decision was taken, should be verified by the bankers in the changing circumstances.

d) Supervision & Control by the Regulatory Bodies

Financial Sector Reform Programme (FSRP) was undertaken in 1989-90 with the objective to ensure more effective role in the banking system in the country's development efforts. It was felt that the Bangladesh Bank's regulation and supervision of the banks should be strengthened. Accordingly the Banking Companies Act 1991 have come into force giving enough power to Bangladesh Bank to control and supervise the activities of the banks. Bangladesh Bank should effectively use the power given to them for improving the loan recovery position of banks through establishment and monitoring the loan recovery procedure.

Bangladesh Bank may constitute a "Sick Industrial Undertaking Cell" to monitor the Banking performance in this regard. It is in the national interest that the sick industries which are potentially viable should be restored to their pristine health. Though identification and nursing of the sick industries which are potentially viable is the task of banks and other financial institution cell should mould the institutional attitude towards the same. Bangladesh Bank should consider imposing 'Credit Ceiling' for those banks and financial institution whose performance in the recovery process would not be satisfactory.

For quick disposal of court cases commercial courts are established. But the execution of court decrees for foreclosure of security for settlement of overdue loans are still suffering from procedural lag. This lag should be removed to establish the respect for law. Necessary amendment in law should be made.

Activities of Chartered Accountants cannot be over emphasized in controlling the accumulation of bad loan. Banks and other financial institutions largely depend on their audited reports for assessing the financial strength of the borrowers. It is the responsibility of the auditors to pointout the gathering weaknesses of borrowers in their audit reports. Therefore accountability should be established in this respect.

e) Participation/Consortium Loan

Collective thinking and application of resources of banking sector should be stressed. This can lead to pooling of expertise and upgrading the lending and service capability of the entire banking system. Legal restriction should be imposed prohibiting any one bank to advance to a single borrower more than a percentage of its paid up capital in Bangladesh. Banking Companies Act 1991 have fixed the rate at 15% and 25% respectively depending on the nature of securities. Strict compliance of the law should be ensured.

Sugarcane and Toddy Save Export Dollars

by Asif Khan

SUGARCANE juice and toddy may yet save the Seychelles valuable foreign exchange.

They are cheap and popular drinks in many tropical countries. The Seychelles will use them to make vinegar which it exported before.

Sugarcane grows in abundance in the Indian Ocean island which also has plenty of toddy, the sweet juice taken from bruised coconut and other palm trees.

The juices provide the raw material for a new vinegar factory which began operations in April.

The factory also makes pickles and chutneys from local fruits and vegetables, including some that grow wild and were often wasted, saving the country even more foreign exchange.

It produces about 100 kilograms of vinegar and 50 kilos of pickles and chutney a day. This is more than enough to meet the needs of the country's 65,000 multi-racial population with a taste for hot and spicy food.

The factory was established with technical assistance from the Industrial Development Unit (IDU) of the Commonwealth Fund for Technical Cooperation, the developmental arm of the Commonwealth Secretariat in London.

The IDU provided the assistance in response to a request from the Seychelles government, anxious to exploit the country's natural resources for economic development.

The factory's establishment comes two-and-a-half years after the island set up its first factory to produce curry powder and ground spices, also with assistance from the IDU. In the curry powder factory, all six people employed there, including the manager, are women.

Spices, curry powder, vinegar, pickles and chutneys form an integral part of the traditional cuisine of the Seychelles whose inhabitants include Creoles, Indians and Europeans.

Playing a key role in the establishment of the factories was Sudhir Jain, a 42-year-old Indian industrialist from New Delhi who acted as an IDU consultant for the projects.

Mr. Jain visited the island several times in the last four years, giving help and advice on various aspects of the projects, from the use of local raw materials and appropriate machinery to plant operation and training.

He took the opportunity to visit the curry powder factory where he suggested improvements in its production, packaging and marketing techniques. At the other factory, he provided 70 recipes for pickles, out of which 20 are being used to make them. More recipes will be tried later.

The pickles vary from the commonly-known varieties such as mango, lime and chillies to newer ones using papayas and carambul, a sour, star-shaped local fruit.

They taste better than the imported varieties, according to Mr. Jain whose family business making fragrances and flavours was started by his grandfather in 1928 — the first of its kind in India.

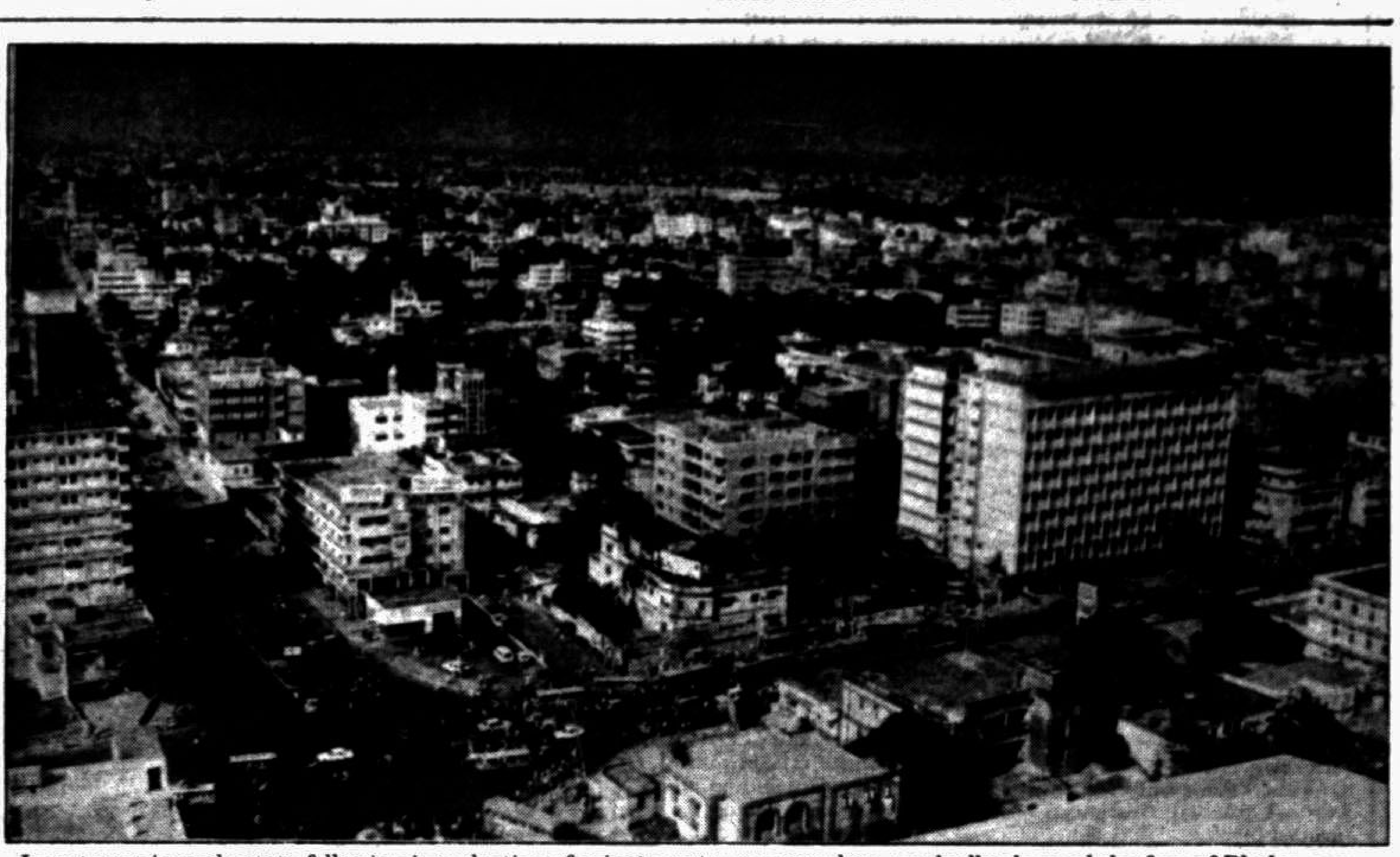
The business later expanded to include spices, pickles and confectionery, with pickles alone accounting for about US$1 million of its annual turnover.

The Seychelles vinegar factory is owned by Ulric Onezime, one of the country's largest farmers chosen by the government to run it as a private enterprise. The curry powder factory is state-owned.

Mr. Onezime's factory uses produce from his own farm. The curry factory imports whole spices from countries like China, Indonesia and Singapore as raw material.

Both the vinegar and curry powder units are in Mahe' — the largest of the 116 picturesque islands that make up the archipelago.

— Depthnews



Investment in real estate following introduction of private sector economy has markedly changed the face of Dhaka, now dotted by multi-storied structures everywhere.
—Star Photo

BUSH FAST-TRACKS FREE TRADE WITH MEXICO

The US signed a free trade agreement with Canada in 1988, and now Mexico is hoping for a similar agreement with the US. As Gemini News reports, if it goes ahead, the result will be a North American trade block larger than any such block yet formed. Despite fears on both sides of the border about worsening environmental problems and falling employee wages and benefits, President Bush is pushing to negotiate a deal as quickly as possible. by Frank Nowikowski

MEXICAN President Carlos Salinas de Gotari has formally requested to join with the United States in a free trade agreement similar to that which the US and Canada agree to in 1988.

The deal would realise US President George Bush's plan for a huge market in a free trade zone stretching from Anchorage, Alaska in the far north to Acapulco in Mexico.

It would be the world's largest tariff-free trade block with 365 million consumers and a combined annual output of $6.2 trillion.

North America would have thus transformed itself into a major trading block, as is happening with the European Community (EC), the booming South-east Asian economies known as the "Asian Tigers", and Mercosur in the southern zone of South America.

It's also happening at a time when efforts to refine the multilateral trade system called the General Agreement on Tariffs and Trade (GATT) have been stalled over disagreements on farm subsidies.

It means too that Mexico, under the Harvard-educated Salinas, is finally turning its back on dreams of Latin economic unity, perhaps because this unity seems far away as ever.

President Bush has asked the US Congress to "fast-track" the agreement, which gives him the power to come to a bilateral agreement with Mexico without referring it to Congress until it is complete.

He is doing this despite strong opposition from Americans who fear the loss of jobs and businesses to Mexico, where labour is cheaper and environmental regulations are not strongly enforced. As well, some economists fear becoming closely linked with Mexico's unstable economy.

They also predict the loss of at least half a million jobs to Mexico, from US and Canadian industrialists taking advantage of Mexico's lower production costs and wages.

Mexican officials, aware of US fears on this issue, downplay it and instead, stress their belief that the free trade agreement would cut down on illegal immigration of unemployed Mexicans to the US.

Economists who favour the deal say that both economies would benefit because resources would be used more efficiently. Some industrialists believe that economic growth in Mexico could be as great as it was in the booming South-east Asian countries during the 1980s.

Mexicans hope that free trade will lead to higher wages and more jobs for the country's poor, narrowing the huge gap between rich and poor.

Americans in turn anticipate that if people in Mexico had more money they would buy more American goods. Already 60 to 70 per cent of Mexico's imports come from the US.

Other economists, however, fear that the agreement would be a risk to US financial stability. A free trade zone with financially stable Canada is one thing, it is argued, but one with an economically shaky Mexico is another.

After Brazil, Mexico has the largest foreign debt in the developing world.

With the establishment of a free trade zone, US banks are expected to rush to buy Mexican assets. But in the event of another economic crisis in Mexico, as some economists are predicting, and the Mexican peso drops in value, US banks will be left holding devalued Mexican assets. It is argued they will then demand that the US government (taxpayers) bail them out as happened with the US savings industry.

Another issue that concerns both American sand Mexicans is the environment. "Mexican regulations and enforcement of environmental protection and workers' health and safety protection are notoriously lax," says an American economist.

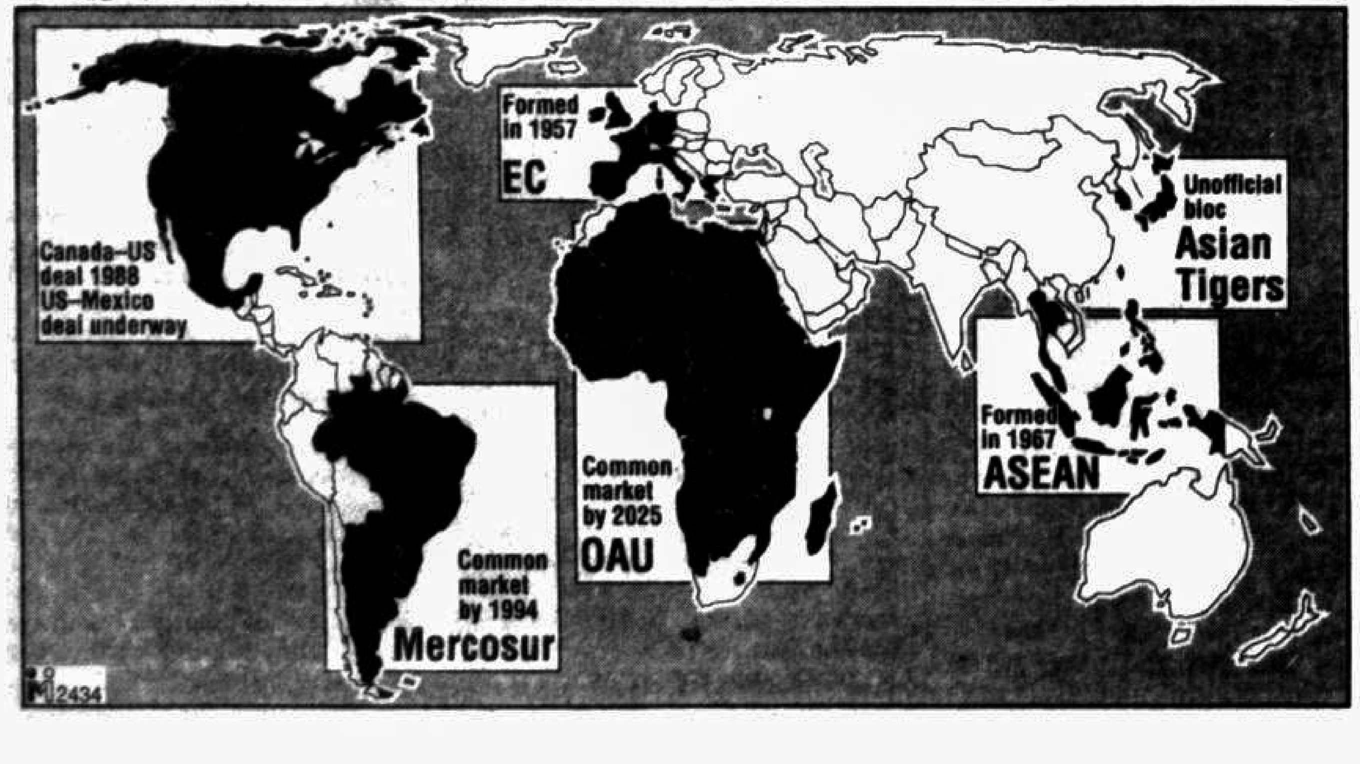
Americans fear that because US businesses would be lured to Mexico, the US would lower its standards in order to compete.

There are already cases of US firms moving to Mexico from California when new laws to protect the environment were put in place. One example occurred in the furniture industry. It moved to Mexico when asked to reduce the harmful effects of paints and varnishes.

Environmentalists fear that Mexico's already grave pollution problems will get worse. There are strict environmental laws in Mexico but they are not enforced. However, as if to signal a change in attitude, Mexicans closed down the giant Azcapotzalco refinery in Mexico City.

Andre Rosenthal, Mexico's foreign minister, argues that the free trade agreement would mean a rise in Mexican standards and not a fall in those of the US. He says the agreement would simply formalise the strong trading ties which already exist between Mexico and the US. —GEMINI NEWS.

How trade blocs are shaping up



Hong Kong Chinese Invade Vancouver

By T.V. Parasuram

A casual visitor to Vancouver easily notices the Indian presence there — Indian taxi drivers, Indian professionals, Indian restaurants and shops and Indian businessmen. However, the rising ethnic community in Vancouver is that of the Chinese, whose economic muscle has been vastly increased recently by the flight of capital and Chinese entrepreneurs to Vancouver, where the government of British Columbia welcomes them warmly.

Everywhere in North America, except in Vancouver, real estate is down — the victim of recession. But not in Hong Kong. The Chinese business and industrial community there, uncertain about what the future holds for them in the Crown colony when it is transferred to China a few years from now, is fleeing to Hong Kong or, at the very least, establishing a second base in Vancouver.

The Chinese presence was visible even earlier. In fact, the Lt. Governor of British Columbia, for which Vancouver is the chief port, is a Chinese. The Lt. Governor is the head of a provincial government in Canada, (He is the equivalent of the Governor of a state in India).

Referring to the rising presence of the Hong Kong Chinese in real estate, business, industry and other areas of economic life, the locals jokingly refer to Vancouver now as Van Kong, just as in Washington a large area where the Vietnamese have settled is called "Little Saigon".

There are complaints of racial discrimination. A Chinese origin journalist said : "The bottom line is that we Chinese face discrimination at the hands of the whites. No one likes to talk about it".

It is the same in the US, where the minorities complain of a "glass ceiling". However, like the Chinese or Indians in the United States, those in Canada are confident that while there is some discrimination, it will be possible for them to overcome it and, in any event, they are far better off where they are than they would be in their land of origin.

The Washington Post refers to them as the new "Hongs" of Vancouver.

The Chinese businessmen are bold in their purchases. They do not mind their high visibility. Hong Kong businessmen Li Ka Shing, for instance, bought the 204 acre Expo '86 site in 1988.

The Chinese businessmen, unlike their Indian counterparts by and large, contribute to local charities as a way to integrate themselves into Canadian society. Vancouverites like to tell the story of Mayor Gordon Campbell who recently called upon a Hong Kong Chinese gathering that he would be glad if they could contribute to local charities to which the city would give matching grants. The Chinese who heard him quickly pledged 1.3 million dollars. The Mayor then realised that the city is not rich enough to match that amount. He subsequently continued his appeal for funds from the Hong Kong Chinese but he studiously refrained from offering out to match their contributions. A Vancouver banker pointed out to Mayor Campbell that the net worth at the head table alone at the function he addressed was about four billion dollars.

When Canada recently visited the Asian Development Bank to meet in Vancouver, the symbolism was clear: Canada has as much stake in Asian trade as it has in its trade and other connections with the west. The leaders of the community in Vancouver as well as the provincial government hope that the vigour of the Hong Kong Chinese which made Hong Kong one of the "Tigers" of the Far East will now be applied to Vancouver.

Vancouver has only about 150,000 Chinese compared to Toronto's 300,000 ethnic Chinese. But the Hong Kong Chinese — rich businessmen as well as professionals, middle class entrepreneurs and others — are attracted not to Toronto but to Vancouver, a beautiful garden city with its California type weather and the gateway to the east from Canada.

As Britain's 1997 turnover of Hong Kong to China draws closer, experts predict that tens of thousands more wealthy immigrants will flee to Vancouver, bringing with them billions of dollars of capital under Canada's relaxed immigration policies for rich business investors.

The biggest foreign bank in Canada is now the Hong Kong Bank of Canada, a subsidiary of the Hong Kong and Shanghai Banking Corp.

Michael Goldberg, Executive Director of Vancouver's International Finance Centre, said : "The Hong Kong Chinese have tremendous entrepreneurship, something Canada lacks. It is part of their cultural values, and it is infectious. They also have connections to the Asian market, and they have financial capital. That's a powerful combination. What other group can give you that kind of turnkey package?"

The number of immigrants to Canada from Hong Kong alone has totalled 110,000 in the past seven years, reaching a record 30,000 last year. It is expected to rise another 200,000 in the next six years. Seventyfive per cent of the new Asian arrivals are from Hong Kong.

A Taiwanese China journalist said : "When I have nothing else to do, I go to the airport and look at the new arrivals from Hong Kong. It is an impressive number every day of the year." There is also a growing number of immigrants from Taiwan, Japan and South Korea, but it is the Hong Kong Chinese who attract the most attention because of their wealth, their skill and their entrepreneurship.

The Asian immigrants are currently bringing into Canada close to four billion dollars a year a figure that is expected to dramatically increase before Hong Kong reverts to China.

The influx has become greater in the wake of Tiananmen Square. Before that watershed event, many Hong Kong businessmen were inclined to trust China's word that there will be no interference in Hong Kong's economic system. Now they are no longer sure.

Ethnic Chinese now comprise 27 per cent of Vancouver's population of 560,000 and 15 per cent of the 1.5 million population of metropolitan Vancouver. Some demographers predict that Vancouver will have 40 per cent ethnic Chinese before the turn of the century, making Vancouver the most Asian city in North America. Already 40 per cent of the children in Vancouver's government schools speak English as a second language. The University of British Columbia, sensitive to some non-Asians' fear of a Chinese takeover of Canada's third largest city, says Washington Post has stopped issuing an ethnic breakdown of its enrollment.

Among the wealthy arrivals from Hong Kong is Li Ka Shing, whose personal assets are estimated at 2 billion dollars and whose companies represent about 20 per cent of the capitalisation of the Hong Kong Stock Exchange. Other big name Chinese investors in Vancouver include Stanley Ho Hungsun, a Macau gambling and real estate magnate said to be worth 1.2 billion dollars;

Cheng Yu-Tung, Hong Kong's largest diamond dealer, who owns the sprawling Ramada Hotel chain and Vancouver's Heridian and New World Harbourside Hotels; and lee Shau-kee, who owns Hong Kong's gas company and reportedly holds 300 million dollars in property in Hong Kong.

Others include David See Chai Lam, a prominent Hong Kong banker who immigrated to Vancouver in 1967. He was appointed Lt Governor of British Columbia three years ago. Lam delivered a rousing address on British Columbia's attractions and its multi-ethnic character at a breakfast meeting for the visiting governors of the Asian Development Bank. His high profile government post has served Canada well: he is said to have helped convince financers like Li Ka-Shing to choose Canada over competing countries like Australia and the United States.

— (PTI Feature)