

Streamlining Loan-loss Provisioning

COMMERCIAL banks of Bangladesh have just passed the third year of classification of their loans and advances as also of related provisioning. Accordingly, they are supposed to complete the classification process on the outstanding loans and advances of December, 1991 by first quarter of 1992. The first year of classification implemented with effect from December 30, 1989 was the year of confusion, uncertainty and fear on the part of commercial banks regarding consequences of the reform programme. It was due to complete absence of such a practice of keeping provision on possible loan loss out of profit of the banks. Also it was apprehended by some quarters that as the new system of provisioning directly told upon the banks' profitability, resentment could have arisen among the sponsors and shareholders of the private commercial banks. But the first and second year of the reform programme have passed quietly, commercial banks have already classified their loan portfolio twice and finalised respective balance sheets keeping provision against possible loan loss at the appropriate rate guided by the Bangladesh Bank. Private commercial banks have faced their share holders in annual general meeting and impressed upon them about the reform programme, its objectives and impacts. Naturally, in the first year of implementation of the programme, private banks could not declare any dividend to their share-holders. The sponsors and the

share-holders have also shown tolerance accepting a return-less investment for a year. In case of the nationalised commercial banks, transfer of profit to national exchequer had to be foregone in the first year of the reform programme. Although there is no reason for resentment from the side of the government as the reform programme is a government decision and its consequences will have to be borne accord-

by Faruq Mayeemuddin

ing. Provisioning against possible business loss is an accepted phenomenon in accounting. All investment do not return safely, so it is obligatory for any business concern to provide against possible loss upto an acceptable level, absence of which inflates profit which becomes a misnomer, merely paper profit. So provisioning against business loss, not only prevents a concern from showing paper profit but also establishes a sound accounting principle that creates strong reserve position of the concern. The other aspect of the provisioning lies in monitoring of the uncertain or stuck-up receivables which guides the management of the concern to put more effort for recovery of its uncertain receivables. If any concern is allowed to appro-

prate the profits out of its business irrespective of the quality of its receivable, it will not put much effort to recover the receivables. If these unrealised receivables can be made a direct factor to profit, the management of a concern will leave no stone unturned to recover the receivables. Same is the case for the banks. If the unrecovered loans can be made a direct factor to its profit and the accrued interest

gramme were required to be implemented much earlier, which at least, could bolster our banking sector with a handsome volume of reserve beneath the quicksand of paper profit.

Against the backdrop of such a grim scenario of our banking sector, the reform programme has been introduced. In order to make the cost of bad debt transparent in financial statements, all loans overdue by one or more years are to be classified, interest are to be suspended on all classified loans and loan loss provisions are to be made. The rates of provisions, ranging from 10% to 100% are fixed as follows: Overdue for 12 months to 35 months classified as substandard will toll 10% of the total outstanding less interest held in suspense account, 36 to 59 months termed as doubtful subject to provision at 50% and overdue for 60 months and above period, classified as bad/loss will toll the total outstanding. Of course there are four other criteria in addition to overdue, viz. required payment limit overdrawn, legal action and qualitative judgement.

Provisioning against those substandard loans have, however, been exempted which are bolstered by eligible securities. As per BCD circular 34 of 1989 the eligible security includes cash collateral, pledged stock under banks' effective control, gold/ornaments held by the bank and government or the Bangladesh Bank guarantee. The criterion of exemption has created a scope to term it as inconsistent because of its discriminating applications. A classified loan, which may be overdue for upto 35 months even, is exempted from keeping provision provided the same is collateralised by eligible securities, on the other hand an unclassified loan, even secured by cash collateral is not entitled to get this exemption from provisioning.

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On such loans is not allowed to be appropriated as profit, which eventually tells upon total profitability, it will make the management more serious for recovery drive and careful while making credit decision. The past trend of accounting practices completely ignoring the concept of provisioning were so menacing and our banking sector had been so inexorably heading towards quicksand that an IMF Economist, who had been working as fiscal adviser to our Ministry of Finance, remarked that "if realistic provisions for bad debt were to be implemented, the net asset value of the Nationalised Commercial Banks would be negative. If they were private institutions they would be technically insolvent". It may therefore, be realised that the reform pro-

gramme were required to be implemented much earlier, which at least, could bolster our banking sector with a handsome volume of reserve beneath the quicksand of paper profit.

China

Children of the New Economics

THE emergence of a market economy and an increasingly consumption-oriented society in China is raising a generation of "little emperors" — Chinese children who are fat, lazy and free-spending. While fat was traditionally regarded as a mark of beauty or at least distinction because it signified prosperity in a land where thinness is associated with hunger or disease, to the Chinese these overindulged children represent a new generation that is growing up with vastly different material standards, and perhaps values, from those that came before them.

A recent survey of children of private businessmen by the China Education Daily reported that many are getting low grades while leading "flashy lives" outside of school. It found that 78 per cent of these students are uninterested in studies, roughly the same number who are loath to participate in group activities or assume their school duties. Some pay classmates to perform their chores. The survey further found that many of these children of self-employed businesspeople, a class that did not exist in the new China until roughly 10 years ago, "are often involved in fighting, drinking alcohol, gambling, and reading pornographic materials." The study faults parental attitudes, in part, for giving children the idea that schooling isn't important, and that those with just a primary school education can earn far

more than college graduates. Furthermore, parents use money to motivate and reward them. The survey found that these children have much more spending money than most, as much as three to nine dollars a month in a country where most workers earn less than

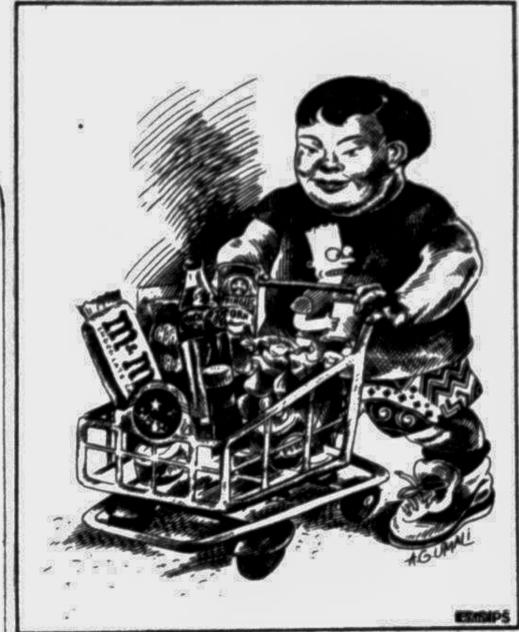
The shift in values in China in recent years is exemplified by the over-indulged children of China's new rich who, to many Chinese, represent a new generation that is growing up with vastly different material standards and values from those that came before. Deirdre Godfrey of IPS reports.

US \$37 monthly. Still, it is not only the children of China's new entrepreneurs who are spending too much on sweets and video games. The country's first "new consumption education movement for school pupils" was inaugurated in late 1989 in Liaoyang county in north-

others are silently suffering the excesses of a more traditional upbringing. In a bitter essay, one college student described the years when she was not permitted to watch television, listen to music or even participate in some family activities as the period of being "daddy's little study-machine."

In the past few months, the China Youth News has printed over 100 letters on the central question: "Should we continue to live a frugal and hardworking life today?"

The flood of letters attests to the urgency with which attention is being given to the shift in values in recent years. While soldiers and professionals who are toiling deep in China's hinterland are cited as today's version of the selfless model who came to the fore with liberation 42 years ago, times are changing for many others.



eastern Liaoning province, far from major urban centres. Here, too, the alarm has been sounded about lavish spending among schoolchildren. Through a survey, school authorities learned that the pocket money spent by nearly 1,000 students in two years' time was enough to construct a new school building.

"Wearing worn-out clothes and eating sweet potatoes" is how one writer characterises the lifestyle of the last several generations, whose abstemious standards were based both on necessity and on a worker-hero model of selfless dedication to building the country. Another letter writer charges that this kind of ideal falsely led people to believe that the poorer one was the more glorious. Others point out that the new entrepreneurs are struggling for survival in a highly competitive environment. They may be rich, but they too are living a kind of frugal and hardworking life.

However, the old virtues too have their critics. As some decry the new spending habits and laziness of indulged children, others regularly bemoan in newspaper columns the over-emphasis on lessons by many parents who make their children do nothing but study. While some children are scandalising society by spending freely in restaurants,

A dispassionate view is given by a letter writer from an agricultural university in Jiangxi who notes that the commodity economy has raised an enormous challenge to traditional values. "If we take a serious look at today's young people, we might reach the conclusion that the future for living a frugal and hardworking life is gloomy," he said.

SEA

SEA Makes Way to World Trade

by MA Tianze

LAOS is the gateway for Yunnan province to Southeast Asia. That may sound anomalous, if not a fantasy, since the more prosperous Guangdong province, south China, is traditionally its outlet to the rest of China and the world. But Yunnan is looking at other places these days, and it has big plans to correct what it perceives to be other contradictions in its state of affairs. Among other things, Yunnan plans to open a shipping channel on the Lancang River, Yunnan Governor He Zhiqiang believes the channel "will help promote friendly contacts and economic exchanges between southwest China and Southeast Asia, thus quickening the pace of the province's opening to the outside world."

ambitious plans push through. It may well be the answer to the irrational distribution of China's industrial base where heavy energy consumers are located in the energy-short eastern parts of the country. Yunnan fits the bill because of its rich mineral and hydropower resources — potentially vast non-ferrous metals and phosphorus deposits and huge water-generated power. The development programme envisaged by the Yunnan government includes what will be China's largest lead-zinc mine. When its first-stage project is completed by 1995, it will produce 60,000 tons of lead and zinc a year. The mine has proven reserves of 14.34 million tons. In terms of deposits, it is among the four biggest mines of its kind in the world. Yunnan is one of China's largest phosphorus producers. Most of its phosphorus and other chemical enterprises are being revamped and a number of new ones built. The industry, after expansion, will be able to produce annually 15 million tons of phosphate ore, 2.7 million tons of triple superphosphate and 300,000 tons of yellow phosphorus. The Kunming Iron-Steel Works is another industrial

enterprise being upgraded technically. When the first stage is completed late 1991, annual output of steel in this company will increase to 900,000 tons from the present 700,000. The second stage upgrading is expected to start this year and upon completion in 2000, the works will be capable of producing 1.2 million tons of steel yearly. Yunnan province, in South China, may well be the answer to the irrational distribution of the country's industrial base where heavy energy consumers are located in the energy-short eastern provinces

south into western Tibet and western Yunnan, from where it snakes to the Indochinese peninsula where it becomes the Mekong River. According to the Hydropower Survey and Design Institute, the river can generate 19,000 megawatts of electricity. The irony of it is that not a single hydropower station is currently operating on the river. To tap the power potential, China plans to build eight stations with a total designed capacity of 13,700 MW. When these projects are operational by 2030, they will generate

70.8 billion kwh of electricity, a year, according to the Kunming Institute. "By that time," says Yao Qunqin, deputy director of the institute, "Yunnan will be able to supply electricity to the power-thirsty provinces in the east and perhaps even to some Southeast Asian countries." Today, a power station with a designed capacity of 1,500 MW is being built at Manwan in the central part of the river, about 237 kms west of Kunming. The first 250 MW generating unit of the station will begin operations in late 1992. By 1995, altogether six such power units will produce some 7.9 billion kilowatt hours (kwh) of electricity a year. Total investment on the Manwan project will be 1.1 billion yuan (US\$210 million). The money will come from the Yunnan government and the Ministry of Energy. After Manwan, two more large power projects will start on the same river at Dachaoshan downstream and at Xiaowan upstream. The Dachaoshan is planned for completion by 2000 when it will have a capacity of 1,260 MW capable of generating 7.5 billion kwh of electricity annually. The Xiaowan project, on the

other hand, will have a capacity of 4,200 MW and will generate 17.8 billion kwh of electricity a year by 2007. The project, located about 265 kms to the west of Kunming, will be funded by the Yunnan government, the State Energy Investment Corp. and the Guangdong provincial government. The five remaining water power stations on the Lancang River will be constructed by the first three decades of the coming century. "After their completion," says Gov. He, "the irrational distribution of industry will drastically change. At present, about 70 per cent of the nation's enterprises are located in the energy-short eastern or coastal cities." To coordinate industrial development, two railways are planned. One of them, an 870 km electrified railway now in the process of construction, will link Kunming with Nanning, capital of the Guangxi Zhuang Autonomous Region. The railway line will be finished in mid-1997. Simultaneously, four arterial highways in Yunnan are being upgraded. The four radiate from Kunming to western, southern, northeastern and southeastern Yunnan. Two of them — the Kunming-Wanding and Kunming-Daluo highways — terminate at the Sino-Burmese border and are linked to Burmese roads. — Depthnews Asia

Recent Developments in Production and Trade

WORLD production of jute, kenaf and allied fibres increased sharply to 3.6 million tons in 1990/91 from the reduced levels of the late 1980s. This increase reflected an expansion of planting with a rise in the price of jute relative to competing crops and favourable weather both at the time of sowing and harvesting. Production in India, the world's largest producer, reached a record level while that of other major producing countries including Bangladesh, China and Thailand also increased considerably. Among the smaller producing countries, Myanmar registered a sharp decline, while Nepal maintained the same level as in the previous season. Carry over stocks of raw jute and kenaf at the end of the 1990/91 season remained at relatively low levels in the major producing countries, as increased mill consumption in some countries such as India and Thailand curtailed stock replenishment. The ratio of stocks to mill consumption in the major producing countries, at 25 per cent, remained below average.

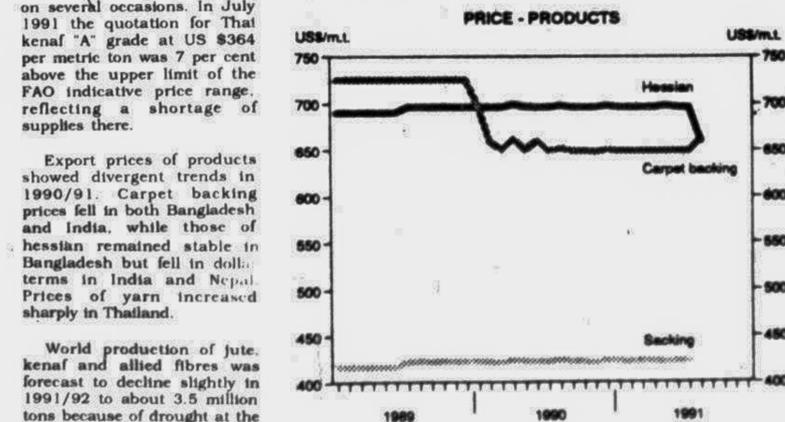
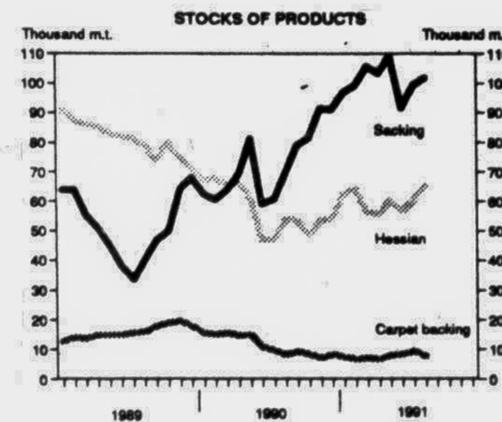
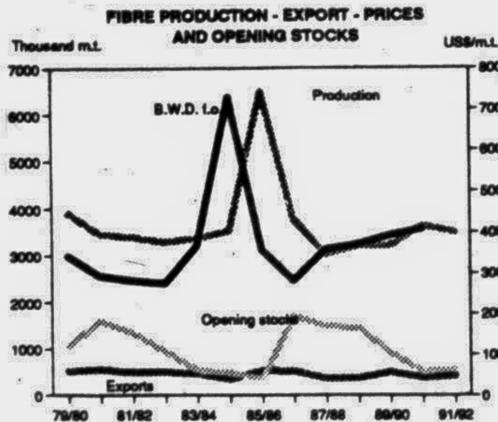
Exports of both fibre and products fell sharply in 1990/91 from 16000 tons in the previous season as supplies in India, its main market, were ample. Earnings from exports of fibre, however, declined less sharply than did volumes due to higher prices during the season. Exports of products fell to an unprecedentedly low level of some 845000 tons in 1990/91 against over one million tons in earlier seasons. The main contributing factors were a reduction in jute packaging requirements for certain agricultural commodities traded internationally such as coffee, cocoa and sugar; payments problems in certain important markets of Africa and the Near East; and disruption of normal shipments caused by the Gulf war and the changing situation in eastern Europe.

The total value of jute producing countries' exports of products fell to US \$555 million in 1990/91 from US \$668 million in the previous season. The combined value of exports of fibre and products also declined 17 per cent to US \$722 million from US \$872 million. Exports from all the major suppliers were reduced but those from Bangladesh dropped more sharply than others, by about 30 per cent. Some increase in exports of yarn from Bangladesh failed to compensate for the fall in exports of all other items. Exports of carpet backing fell by 15 per cent; those of hessian by 34 per cent and sacking by 45 per cent from the previous year's level. Exports from India fell by 13 per cent, reflecting a 34 per cent decline in exports of hessian which was partly offset

by greater shipments of sacking. Exports of carpet backing fell by a half to 12000 tons. Nepal increased in its exports of goods somewhat in 1990/91, but those of China and Thailand declined. World imports of fibre fell by 15 per cent in 1990 with a 20 per cent decrease in purchases of developing countries. Most of this decline occurred in Pakistan where imports fell sharply from the unusually high level of the previous year. Imports of the developed countries remained stable at about 130000 tons for the third successive year. Lower imports into North America and western Europe in 1990 were offset by a recovery in consignments to eastern Europe and the USSR. A very sharp decline took place in the United States which imported only 3900 tons of fibre in 1990 against 16100 tons in 1989.

World imports of jute and kenaf products rose in 1990 reflecting increased consignments in the first half of the year. However, crop year export data suggest that a pronounced reduction in imports took place during the latter part of 1990. For the entire calendar year, imports of North America and western Europe were substantially higher, while those of eastern Europe and the USSR stabilised at the level of the previous year. Imports of developing countries remained stagnant in 1990 at the level of the previous two years. A sharp recovery in imports of the Near East offset declines in Latin America, Africa and the Far East. Jute product stocks in major manufacturing countries

increased to 237000 tons by the end of 1990/91, from 181000 tons one year earlier. Most of the increase took place in Bangladesh and India where stocks of all items except carpet backing increased sharply. In contrast, stocks in Thailand of all items were reduced to minimal levels. The rising trend of raw jute export prices since 1988/89 levelled off in the latter part of 1990/91 at a level of US \$410 per ton for BWD grade from Bangladesh ports. At the level, quotations remained within the indicative price range agreed at the FAO Intergovernmental Group meeting in October 1990. Quotations for Thai kenaf fluctuated very sharply during the season and nominal prices exceeded the upper range of FAO indicative prices of US \$340 ± US \$20 per metric ton on several occasions. In July 1991 the quotation for Thai kenaf "A" grade at US \$364 per metric ton was 7 per cent above the upper limit of the FAO indicative price range, reflecting a shortage of supplies there. Export prices of products showed divergent trends in 1990/91. Carpet backing prices fell in both Bangladesh and India, while those of hessian remained stable in Bangladesh but fell in dollars terms in India and Nepal. Prices of yarn increased sharply in Thailand. World production of jute, kenaf and allied fibres was forecast to decline slightly in 1991/92 to about 3.5 million tons because of drought at the



World exports of both fibre and products fell sharply in 1990/91. In the case of fibre, the volume of exports at about 377000 tons was somewhat below the average level of the late 1980s and far less than in the preceding season. Shipments from Bangladesh, the largest exporter, fell by 30 per cent while those of China declined by 25 per cent. Reductions were recorded for most other exporters, including Nepal and Thailand, but some increase took place in exports from India following

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