

Pushing Banks to Own Up and Perform Better

The new dispensation will directly impact the banks of course and it would bring consequences for depositors, borrowers — the financial system as a whole

Better Late than Never

We are, literally, at the very end of any possibility of an amicable solution to the present political crisis. The Speaker has done his best to give as much time as he possibly could, helped a bit by his unfortunate, but timely, illness. The leaders of the two main parties have not taken any advantage of this time, and appear to have resigned themselves to an uncertain future. At the risk of appearing to be repetitive, we would like to reiterate our belief that there exists enough possibility for a solution. All matters of substance have been resolved. What now remains are trivial, compared to the obstacles that have been crossed.

Evidently, two clear paths lie ahead, both of which, however, lead to elections. First is the path of finalising the understanding which is almost there, returning to the parliament and holding elections as per agreement. The other is for the BNP and the opposition to continue their separate ways, and head for an early election. The advantages of the negotiated path are many. The very fact that no parliament in Bangladesh has been able to complete its full term is warning enough that time has come to set such a precedence. Second, a full year of healthy parliamentary politics is the best way to enter the next election, than to go at it in the mood of confrontation which is currently the case. There is also the serious question of adequate preparation for the elections. The preparation of computerised voters' lists, and the issuance of ID cards are steps that are essential for a proper election, which is what the opposition parties have been clamouring for. On the other hand, rushing into a new election without the necessary preparation will defeat the very purpose of holding a free and fair election, the demand that lies at the very heart of the current political impasse. The opposition, in their attempt to dislodge the BNP government from power should not take lightly the need for adequate preparation for elections. If they do, the genuineness of their intention to hold a free and fair election will be under serious doubt.

Election, either early or in fourteen months, is really now the focal point. How to hold it most freely and fairly is of the highest concern to us all. Even for just that, we think the path of understanding is the one to follow.

Policing the Highways

On Saturday The Daily Star reported at length about the recommendation made to government to raise a highway police force and set up a separate traffic cadre service. The Bangladesh Road Transport Authority who made the recommendation said that short of those measures the frequency and the magnitude of highway accidents and crimes could not even be addressed properly. The BRTA has said that the proposals are under active government consideration.

These proposals are but a vindication of the demands constantly hammered by this journal over the last three years. Once this encouraging response is here, the problems of the highways have now to be seen and understood at greater depths and in finer detail. And before we go into that, will it be too exuberant to hope that our other frantic pleas may now begin to elicit similar positive response? And most of these pleas centred on the performance of the police itself. Not all police failures are due to lack of numerical strength. In the capital city, a sufficiency of traffic policemen has, contrary to claims made by the BRTA sources quoted in The Daily Star report, hardly helped matters. Lack of true application and deep-entrenched corruption have combined to rob police to play any effective role in plugging lapses in traffic movement as well as roadworthiness of vehicles. A considerable traffic police strength in the city has done next to nothing to improve either the pollution situation or upon the fact that at least 80 per cent of vehicles on the road are moving death traps.

A separate cadre for traffic police and the elite among them taking care of the highways: In fact there is no way but through this. But how to ensure that the ruling inefficiency and corruption in the city traffic management wouldn't now only be extended to the roads that connect the nation? Preventive mechanisms must be devised before the police get a truly long handle.

To be effective the highway police must be mobile. Highways must all be patrolled at all hours of the day and night. Road security gains radically in importance. Security on two fronts — freedom from accidents and from violent crime; without such security, these highways would be robbed practically of all use.

Independence of Universities

This is a distinction in reverse. No convocation has been held at Rajshahi University ever since the emergence of the Bangladesh state 23 years ago. The 40-year old university has to date held six convocations — all of them before liberation and all within the first 16 years of its founding. Five of these six were held under one Vice-Chancellor — Professor Mumtazuddin Ahmed.

Exposed to the above facts what is one to think of the goings on in that university? It may appear that national independence has been a bane rather than a boon for the university. The university's many records, topped by this convocation one, do put into question the value of national liberation. But this is at best misleading. In 1973, when the whole nation had hardly recovered from the shock and the devastations of a nine-month long inferno, the university in a rare show of dynamism held a special convocation to award D.Litt honoris causa on the French hero and writer and cultural legend Andre Malraux. Things were decidedly on the ascendance there till then and some time more. What happened after that?

Rajshahi University never had a normal peaceful year after that in the last two decades — thanks to chief executives of strong political opinions generally not in consonance with the spirit and the ideas of liberation. The blame for Rajshahi University's receding into an insular cocoon that kept clear of the national striving for democracy and culture, must lay squarely on the ruling politics or apolitics of the day. A better rationale for true independence of the universities can hardly be found in a jiffy.

RULES for differentiating the banks' good loans from those which are not-so-good, have been made stricter.

The exercise is known in the banking parlance as loan classification. Put simply, it just entails the recognition by a bank that some of the money it had lent did not flow back as scheduled. Repayment is overdue and the loan looks like turning sour. A banker would call it a non-performing loan.

A bank takes in money from its depositors. And it lends the money out to the borrowers, charging interest on the amount of the loan. It would have been wonderful for the bank if it could collect all the deposits free of charge. As the system goes, the bank has also to pay interest to its depositors who put their money in for a stated term. When a borrower defaults in payment, the bank's income from the interest accruing on the loan would cease. All the same, it would have to continue paying interest on the term deposits. A mismatch between the bank's earning and outgo would surface immediately. Even worse, the amount lent out originally could also be lost eventually. But the bank would have to pay back the depositors' money outright.

Loan defaults would thus eat into the bank's capital. The bank could raise more capital but the prospects may not necessarily be good, particularly if widespread loan default has had impaired its financial standing already. The other recognised way for banks to weather the situation is to create additional reserves from current profits — putting by resources to face any possible adversity in the coming days. Termed loan provisioning in banking circles, these additional reserves would provide the bank with the wherewithal

to meet its obligations to the depositors while the borrowers continue to default on loans.

So it happens that loan classification leads to provisioning for debts. Central banks usually lay down the rules of the game. This time around, a section of the press reported that Bangladesh Bank had issued on December 27 last, revised guidelines for loan classification and provisioning by banks. The new framework is more rigid than the one it replaces. The idea seems to be to introduce stricter loan discipline and gradually to bring up the banks' provisioning norms for debts to international standards.

All non-performing bank loans are not bad debts. A bank loan is adjudged bad when it turns irrecoverable. The bank would have to write it off its loan book. To be able to do that, the bank would have to build up bad debt reserves equal to the loan amount being written off. Otherwise the bank would not have at its disposal funds to pay the depositors whose money the bank had advanced to the borrowers as loan which got stuck and turned eventually into a bad debt. In short, the bank needs full provisioning for bad debts. Well, conceivably the bank could meet its obligations to the depositors even without adequate provisioning, by simply paying out other depositors' money or out of loan recoveries from good borrowers. However, such maneuvers would work only for a time and the crunch would surely come some day.

On the scale of non-performing bank loans, doubtful debts come a bit upstage. Here, unlike a bad debt, total

loss of the loan amount is not apprehended. At least partial recovery of the loan is on the cards. Doubtful debts therefore need a lower level of provisioning. Then there are substandard loans. These also are non-performing loans but there are reasons to hope that the borrower would pay off his debts to the bank soon enough. A substandard loan thus rates a still lower level of provisioning.

In our system, the quality of a non-performing loan is measured by the length of the time it had continued to remain overdue. The longer the arrears remain unpaid, the worse the loan's quality. Till the new rules were introduced, a bank loan overdue for 5 years or more would be classified as bad, for 3 years or more as doubtful and for one year or more as substandard. Also, depending on the period it remains unpaid, a substandard loan could deteriorate to a doubtful debt and then turn bad. Banks were required to carry out loan classification exercise at the end of each year and make provision by way of creation of reserves out of current profits according to the categories of non-performing loans. The revised criteria for loan classification would compress the time frame drastically, albeit over a period of five years starting 1994. By the end of 1998, a bank loan overdue for repayment for one year or more would be considered a bad debt, doubtful if the period

is six months or more and substandard when it has remained outstanding for three months or more. Besides, banks will have to do the loan classification chore once every three months instead of once a year.

The new dispensation will directly impact the banks of course and it would bring consequences for depositors, borrowers — the financial system as a whole. First, the time lag allowed for non-performing loans required to be classified as bad, doubtful and substandard debts is being cut back

funds to meet larger loan provisioning requirements. Faced with a trade-off between expanding interest spread or running into losses, banks will probably choose the former.

Banks could increase the interest spread by lowering deposit rates, raising lending rates or they could do both. Lower interest rate on deposits means the savers would get a reduced return on the money they put into the banks. Higher lending rates would make borrowers pay more for the money they take from the banks. These changes would come in nominal interest rates of course. Real interest rates (nominal rates adjusted for inflation) could be different. However, the ordinary depositors and borrowers hardly care for real interest rates. What matters to them is the amount of interest they are currently getting or paying.

Banks could thus augment their profits by managing the interest rate spread in their favour. However, the shareholder is unlikely to reap the benefit by way of higher dividends. In all probability the incremental profits will go towards building additional reserves for higher levels of provisioning against non-performing loans that the new regime calls for. Then again, full provisioning for debts could prompt the banks to overdo efforts to recover overdue loans. Life for them could promise to be easier if they would just forgo (or forgive) part or whole of the accrued interest on an overdue loan and come to a settlement with the errant borrower for repayment of the balance. The amount forgone could easily be adjusted against loan provi-

sions already made and the bank's balance sheet would take on a respectable look. At the other end of the equation, a crafty borrower might consider it more lucrative to default on loans deliberately and then come to a settlement with the bank after obtaining interest waiver. A new wave of the so-called default culture would then infect the banking system.

A faster growing economy could, of course, open up new opportunities for banks to roll in higher profits, even without tinkering with interest spreads. However, it is not known when, if ever, the economy would get roaring ahead. Meanwhile, competition will intensify when some seven new banks enter the field. Competition is coming from other directions too. For instance, entrepreneurs are learning fast to raise funds direct from the emerging capital market instead of running to the banks, when they need money. Investors are putting their money direct into the stockmarket. Banks are losing both depositors and borrowers.

ALL such trepidations notwithstanding, we will probably have a sounder banking sector, if the new system works. The depositor would be sure that his money in the bank is safe. The borrower might get a more customer-friendly service. And the central bank will presumably remain alert so that its programme does not get derailed. Overall, the financial system would run smoother for that. In a way, the new initiative is also a move designed to push banks into owning up their past failures and perform better in the future. Question is, will the banks come up to the test?

O! Jerusalem — the Most Cherished

by Arshad-uz Zaman

Throughout this half century of intermittent war and endless negotiations, there is one question, which has been kept carefully aside. That question is Jerusalem, emotionally easily the most explosive

HOLIDAY season — that is Christmas and New Year 1994 — is something that the Holy city has not witnessed in half a century. The Peace Process has taken firm hold and it is irreversible.

Nearly 50 years ago the first Arab Israeli war broke out and brought in its wake a new state called Israel. The last half a century has witnessed violence and bloodshed between the Arabs and the Jews polarisation in two camps, the international community wrestling with this intractable problem.

The two key UN Security Council resolutions, 242 and 337, spelt out the broad outline of a settlement. The 1967 war between the Arabs and Israel made it even more explicit. It was return of Arab lands to their original owners in return for peace for Israel within her internationally recognised borders.

The Ramadan war of 1973 brought about the first signs of a possible settlement. The largest of the Arab states, Egypt, decided to make peace with Israel. It was at Camp

David in late seventies, pushed hard by President Carter that Anwar Sadat of Egypt and Menachem Begin of Israel signed the historic Peace Treaty.

It was during the presidency of another Democrat — President Bill Clinton, the miracle happened. On an Autumn day of 1993, on the terrace of the White House, Yasser Arafat and Yitzhak Rabin shook hands in front of the whole world. It has been recognised all along that the heart of the Middle East dispute was the Palestine problem. Palestinians driven from their homeland in 1948, have bore the brunt of the struggle. Signing of the peace accord between Palestinians and the Israelis signals the effective end of war between the Arabs

and the Israelis. Since that historic event, peace treaty has been signed between Jordan and Israel. It is only a matter of time for similar treaties to be signed between Israel and Syria and Lebanon, whose territories Israel still occupies.

Throughout this half century of intermittent war and endless negotiations, there is one question, which has been kept carefully aside. That question is Jerusalem, emotionally easily the most explosive. Here the involvement is not territorial alone — it is the faith of the three largest monotheistic religions of the world. For Judaism, Christianity and Islam, Jerusalem holds a unique place. Devotees make the annual pilgrimage to this ancient city, where all three religions had their first roots

and flourished. If Jews and Christians hold on to Jerusalem as one of their most holy sites, it is no less for the one billion Muslims. The Masjid al-Aqsa and its Dome of the Rock are engraved in every Muslim heart. Jerusalem used to be the first Qibla (the direction of the prayer for Muslims throughout the world) before it was shifted to Makkah. King Faisal of Saudi Arabia's dearly held wish had been to pray at the Al-Aqsa mosque.

After the 1967 war, Israel annexed part of Jerusalem and declared it her eternal capital. She moved the seat of her Government to Jerusalem. Yet such is the sensitivity on the subject that no state, who has diplomatic relations with Israel, has moved its mission from Tel Aviv to Jerusalem.

The Palestine Liberation Organisation in its Charter has incorporated Jerusalem as the capital of the future state of Palestine. King Hussein of Jordan, who traces his lineage from the family of Prophet Mohammad (SA), claims the right of supervision on the religious sites in Jerusalem. Inclusion of a similar clause in the Jordan-Israeli peace treaty created misunderstanding between Jordanian and Palestinian leadership. In the recent Organisation of Islamic Conference (OIC) summit in Casablanca the heads of state preferred not to touch this issue at this stage.

The settlement of the Arab-Israeli dispute has produced recipients of Nobel Peace prize twice. The first time it was Anwar Sadat and Menachem

Begin and the second time it was Yasser Arafat and Rabin and Shamir.

Now that the territorial dispute between Israel and the Arabs is well on its way to a settlement, the world will have to come to grips with the question of all questions — Jerusalem. In recognition of the fact that this question needs a very special treatment, leaders of the great powers and particularly superpower USA, have kept it on hold. Yet the time has come to face the question. It is evident that the answer does not lie in crafty diplomacy. Since the answer will have to be sought in the hearts and minds of men, it is essential that leaders of the region put their heads together and devise a solution that will appeal to the votaries of the three great faiths.

At the end of the twentieth century, this must be the dearly held wish of the people of Jerusalem which has seen conflict and bloodshed but carries in her womb the seed of peace and concord. Let that be the holiday gift of 1995.

It's the Only Job in Town, Complain the Arms Traders

Qudssia Akhlaque writes from Darra-Adamkhel, Pakistan

Whether it's a rocket-launcher or a handgun, the traders of Darra-Adamkhel have just the weapon for you. A Gemini News Service correspondent pops down to the arms market.

STRANGERS are welcomed to Darra-Adamkhel with open arms — and resounding gunfire.

"Don't worry, it happens all the time," says a smiling dealer as a volley of ear-splitting gunshots greets the visitor. "It's buyers testing their arms."

Guns far outnumber people in this sleepy town nestled in a mountainous area along the Afghanistan-Pakistan border, near the city of Peshawar.

Part of the Federally Administered Tribal Areas, where Pakistani laws do not apply, Darra-Adamkhel has a free arms market, attracting bearded, gun-toting locals and buyers from around the globe.

"The claim that 'almost any make and form of arms and ammunition can be found in this market' is confirmed by a quick round of the main bazaar. Carpeted shops and plazas are packed with weapons, including sophisticated artillery pieces, rocket-launchers, Kalashnikovs and handguns.

This is our national trait. People call it smuggling but we call it business," says a young

shopkeeper with pride. There are an estimated 2,500 arms shops, which provide the main occupation.

But behind a veil of pride in this "traditional" business, there is a strong feeling of frustration and resentment.

Like the poppy growers across the border in Afghanistan, most people in Darra say they are in the business because they have no choice.

"We do not want to be selling arms, but do we have an option?" asks Jawed, whose weapons shop sells everything from the traditional homemade to the most expensive imports.

"What else can we do in this mountainous area? There is no other work for us. We do have not a single factory or mill, so we are compelled to do the arms business," he says resent-

fully. Located in a narrow pass between rugged mountains, Darra is a totally unsuitable site for any business. The only semblance of infrastructure is a narrow, broken-down road that links it to Peshawar.

Pakistan's north-western border city some 175 kilometres from Islamabad. "It is due to government's indifference and lack of cooperation that even today we are so far behind other Pakistani towns," protests another arms dealer, Abdul Rahman.

Women and small children are kept away from the bazaar, but youngsters from the age of ten are inducted into the trade, quickly becoming experts in arms and artillery.

"This is our culture that we have inherited from our ancestors," says trader Zafraan Khan. But the men have no ro-

mantic notions about their children holding on to this arms-based lifestyle.

"We wouldn't like our children to enter the trade," says Mohabat Khan, and a dozen workers at his workshop nod their heads in agreement.

Haji Musa Khan says they have bigger dreams for their offspring: "We want to give our children education. We want them to be doctors and engineers."

But they do not see this dream materialising. Darra-Adamkhel has many schools but only one college. "This college is useless because the masters seldom show up, which naturally discourages students," says a father.

Almost all the arms shops are owned by Hajis (Muslims who have made the pilgrimage to Mecca). "After making the first Rs 100,000, each busi-

nessman goes for Haj," explains a trader.

The biggest shop carries about 70 kinds of arms, many imported from Russia, Afghanistan, China, Japan, Korea, Germany, France, Italy, Spain and Australia.

"The hottest selling pistol is the 30 bore semi-automatic Chinese," costing \$350, says a salesman.

Fixed prices are rare. Deals are made by haggling. A Darra-made Kalashnikov costs from \$100 to \$200, while the prices of imported ones range from \$330 to \$500. A locally-made rifle costs between \$27 and \$160 and a pistol from \$18 to \$200. Double-barrelled Russian rifles cost up to \$500.

"We also make rocket launchers here on special order for private parties," a dealer told Gemini News

Service. Asked who would place such orders, the dealer said with a smile: "For that we don't have the answer."

Pakistan army officials believe Darra-marketed weapons are bought mostly by militant Islamist groups. It was these weapons, they say, that helped one group launch a rebellion against the Pakistan government for enforcement of Shariah (Islamic laws) in early November.

The five-day rebellion, during which well-armed militants in Swat District killed one ruling party parliamentarian and held hostage a provincial minister and several state officials, claimed 40 lives.

For Darra residents, the abundance of arms and their unchecked display is not a disturbing sight. They are considered insurance against crimes.

"Arms do not disturb the peace, they maintain it," argues Jamal Husain. He is partly right. Guns sold here are not fired in anger in Darra; they are destined for use elsewhere.

QUDSSIA AKHLAQUE is a Pakistani freelance reporter and photographer.

To the Editor...

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.

Political scenario: Lesson from Dinosaurs

Sir, Readers may wonder, what on earth does a "sophisticated", taxfree 4-wheeler driven Bangladeshi politician has to learn from a prehistoric huge reptile. To find the answer, one need to examine the two carefully.

We all know that the Dinosaurs — those prehistoric, huge powerful, ferocious reptiles — once ruled the world for million years. But these

large reptiles disappeared from the face of the earth in a relatively short period. It is said that the earth's environment changed drastically due to an ice age, and it was the inability of the Dinosaurs to cope with the changing environment that hastened their disappearance.

Similarly, politicians in Bangladesh are fearsome, powerful, larger-than-life character and people in general are afraid of them. Politicians, whatever the party affiliation (this may change quite happily

as the wind changes), all belong to the same group what many term as "opportunists". Good thing is, they don't seem to realize that the socio-economic environment in which they flourished is changing. Thanks to the information revolution. Today a man on the street is less likely to believe the politicians or have faith in them. We observe everyday, how in other societies politicians behave, and take note of that. If our politicians had taken any note of the mass, they would have known how skeptical we are about their behaviour.

We are no longer prepared to accept any inept and opportunistic politicians to run and ruin this beautiful land of ours. If they soon don't change their method and tactic and adapt to the every-changing socio-economic environment, they too will soon disappear like the all

powerful Dinosaurs I truly believe that the present political deadlock may hasten the process.

Toufiq Elahi, Azimpur, Dhaka

Credibility of Radio

Sir, Recently, on 28th of December, to be precise, though a non-political person I desired to know about developments in the country. The affairs in our country, one of the poorest, is of little concern to the outside world. Even then we find reference to the political crisis here in the news of BBC etc. So naturally I was expecting to hear something on our radio that evening. Eagerly, I listened to the radio news of 7 pm. The first item (obviously most important occurrence of the day) was the meeting of a delegation from Kazi Association with

the President. And no mention of a crisis of any sort in the country!

The prime minister and her advisors should better realise that with such loss of credibility this instrument of propaganda does them a negative service.

Gun licence

Sir, Our government has totally banned the issuance of new gun licences. Thousands of people have licenced gun and God knows what numbers of fire arms are in the country without licence! I do believe that licenced gun holders are very conscious people and there is possibly no instance that owner of licenced gun has opened fire in an act of terrorism.

The government could impose very strict restrictions to fulfill by the applicants in the

matter of issuing a licence. But if should not be altogether banned.

I would like to state my personal experience in this regard. My mother wants me to become her gun's legal holder and she wants to surrender her licence. Accordingly, I went to the concerned authority at Sylhet and explained my mother's inability to retain the gun's ownership, and I also explained my genuine need for a gun, being a tea estate's executive, purely from the security stand point. But he intimated his inability to issue licence due to the government's ban in this regard, although he felt that I had very genuine reasons to be provided with a licence.

I hope the government will pay due importance to this matter. Mofiz Sarwar Chowdhury, Phulthaka Tea Estate, Sylhet.