

## Solely by Economic Yardstick

Prime Minister Sheikh Hasina has announced in Gopalganj that her government intends to give priority to the development of neglected areas of the country. The idea is to ensure a balanced growth of the economy. It is only natural for her to focus on the backward pockets in order that these can be brought at par with the developed areas. We welcome the Prime Minister for raising the issue of symmetrical development of the country.

She has stated that the opposition-dominated areas had been neglected by successive governments during the past 21 years. Hopefully, she does not mean that her government will simply reverse the order of areas to set things right. The important thing is to determine the criteria whereby some areas would be declared backward or neglected and others developed or advanced. In this task, the bureau of statistics can be a guide. While they can supply the basic information about a particular area, it is the various think-tanks, including the BIDS specially, whose assistance might be of great use in this endeavour. The prime minister need not be partisan where facts will speak for themselves.

Let the experts decide the criteria in the light of the infrastructural and other developmental needs of the different geographical areas. For example, those without adequate road communication, electricity, and marketing facilities must be the first to receive priority. Similarly, the areas that are routinely ravaged by natural calamities — such as floods, droughts — or have only limited employment opportunities should easily qualify for early government attention.

Our point is this: Let the development strategy be formulated on the basis of purely economic criteria. This calls for depoliticisation of the development process. We suggest that the area selection exercise be fully transparent and the follow-up measures adopted for areas on the priority list monitored as well. This will be the best guarantee for good use of public money.

## Housing Headache

Three fore-locking things are at play in the metropolitan housing sector, the suggestion being that these are tying us hand and foot without any freedom of action kept for the future. The government housing complexes, previously standardised to keep minimum breathing spaces between buildings, in addition to provisions for a playground or a park, are now sardine-packed as more and more look-alike structures have squeezed in. Then we have the high-rise apartment buildings in the private sector put on the commercial dice but many of them sadly unfeatured by uniformity of standards and accessibility to a good market, park or playground, an auditorium or a sprightly school facility. In the third category fall the 4 to 6-storied buildings raised all over Dhaka and its periphery by individual and family initiatives based on HBFC loans or support from banks at a high interest rate. Many of these houses do not have any adequate parking lot, nor are they in the proximity of a good playground or a recreation centre.

The servicing areas have grown girdling the residential enclaves but most haphazardly by a substandard and slimy abandon to top it off giving rise to urban slumming, the very scourge that was sought to be staved off by a rapid expansion in the built-up area in the first place. What an irony! Environmental degradation and unabated civic criminalities followed as if in a chain reaction to our intermittent failures to take control of events.

It is time we reversed the order of happenings in the metropolis and started living up to international standards of town planning. In most world capitals, the logistics, amenities and facilities are first developed and then the new residential areas are allowed to grow in an egg-and-chicken sequence. This approach has the merit of averting what is now an insufferable overlapping of houses, shops and assorted business enterprises.

Strategically, residential zonings ought to form an integral part of the new town planning exercise we are looking forward to.

## Now Protect Her

Farida Begum, a slum-dweller of Pallabi in the city has reminded us of that superb womanly trait whereby some of them had taken their endangered child or a husband under their wings and recorded rare feats in surviving with their families.

When a terrorist of an armed extortionist group was about to pull the trigger of a pipe-gun aimed at her recuperating husband Tofazzel, Farida, 30, sprang forth snatching away the weapon from him. What a gutsy woman she must have been to do that: the group had by then terrorised the whole family not merely by injuring Farida's sister and mother but also by reappearing on the scene after July 25 when they had first assaulted her husband wounding him.

The local MP's award of Tk 1000 for the brave woman is a token gesture needing badly to be followed up by monetary support to aid her tangibly in self-employment.

What, however, we are terribly anxious about is how to save her from a retaliatory action by the goons. As it is, the second attack on the spot was in reaction to the filing of a case with the police after the 25th July attack by them. And it is also worth recalling that the local thana had not registered the case promptly either.

If the supposedly long arm of law now fails to protect Farida, we might well be denied of the rare flickers of resistive powers in our folks that so much enrich our life.

# Anatomy of Bank Loan Default: It Takes two to Tango

by KZ Islam

WHENEVER I take a loan from the bank I am tempted to think I don't have to pay it back. After all, this is part of our national culture. This phenomenon is eruditely analysed in the article of Prof. Muzaffar Ahmed entitled 'The Political Economy of Loan Default — A Quest for a Socio-Political Explanation'. With his permission I have quoted freely from his work. In the global context of bank default we are really small players. The large scale failures of the banks and Savings and Loans Association (SLA) cost the US tax payers billions of dollars as the SLAs were guaranteed by the US Government. More recently the problems of banks in Japan, Mexico and some other South American countries bear testimony to universality of this spectre.

First attempts to investigate bank default was made by a team led by Prof. Rehman Sobhan which, however, confined their study to the Development Finance Institutions (DFIs). One conclusion that emerged from the study was that the economic factors did not meaningfully explain the default phenomenon. Kamal Siddiqui's take on the case of the new money class in the Dhaka City documents the income effect and extra legal access to financial asset of a group of bank directors and their clients and people with connection and access to power have led to stagnating economic activity, emergence of black money class and misallocation of resources. In his book 'Patron-Client Politics and Bases in Bangladesh' Stanley A. Kochanek concludes that Bangladesh remains a highly traditional individualistic and atomised society in which weak, poorly organised, fictionalised social forces confront an equally weak, poorly organised fictionalised state. Other learned writers have also tackled this subject viz. Dr M. Kabir Hussain in his book 'Banking and Finance in Bangladesh'. Some of Prof. Muzaffar Ahmed's findings after elaborate research are:

(i) The depositors, who were also the large number of stockholders, play no role in defining organisational goal.  
(ii) Despite pressure from

and support accorded by donors, Private Commercial Banks (PCBs) have not been able to create professional management or stop deterioration of non-activation of whatever professionalism is there in the Nationalised Commercial Banks (NCBs) because of influence peddling.

(iii) An investigation into the causes of default in the opinion of financing bankers showed that lack of willingness to pay coupled with diversion of fund, willful negligence and belief that relief may be available in future were the most important causes of loan default.

(iv) There exists collusion amongst groups in the banks and borrowers, borrowers and the government, banks and the government, such neutrality has been compromised in

allocation to selected sectors were reviewed.  
(d) Provisioning for adequate equity capital for banks was made.

(e) Banks were required to make loan classification and make provision for doubtful and bad loans according to period of bad loan limits were set for insider lending. Special courts were to be established for loan recovery.

(f) The accounts were to be upgraded by computerisation.

What then were the achievements of the FSRP (which ended on 30th June 1996 after four years of expensive efforts by dozens of expatriate financial experts)? Because of relaxed supervision by the Central Bank due to political muscle of large default-

prove to be bad and require write off. I would personally put this figure at fifty per cent. For the purpose of this article the quantum is not as important as to identify the involvement of the various players in the anatomy of a loan default.

### The Players

Directly or indirectly the following parties have a role to play in every single banking transaction. They have been listed in order of involvement as per my personal assessment.

(i) Banks (NCB, PCB, DFI).  
(ii) Borrower (Private, Public and the Government).  
(iii) Bangladesh Bank (Regulator and Monitor).  
(iv) Ministry of Finance (Regulator and Appointer of

(b) Borrowers that have got into genuine difficulties due to economic, political and fiscal causes.

(c) Fictitious and 'benami' borrowers who I would term as rogue borrowers.

(d) Borrowings by the State owned enterprises.

(e) Borrowings by the government in the form of bonds or treasury bills.

May be the Bangladesh Bank could make an attempt to quantify the loanees in the categories mentioned above.

(iii) The Bangladesh Bank: Undoubtedly, all banking transactions and facilities depend on bank-client relationship. However, the Bangladesh Bank does have a vital role to play in their function to monitor and regulate the banks. The whole edifice of the banking system depends on

is the power of the unions to pressurize the sanction of a loan.

For Every Defaulter there is a Counterpart Banker

It is evident that greater the force and undue influence used in the sanction of a loan the greater is the likelihood of it becoming bad. A banker who crumbles under pressure from above should be classified as a rogue banker because he is certainly benefitting from his irregular act. A deliberate bank default is a crime and the defaulter should be punished. But while one is punishing one party, what about this partner in crime? The government is hounding the defaulters and correctly so — but why is it letting their partners in crime scot-free? Behind every rogue borrower is a rogue banker.

We rarely hear of a banker being prosecuted for a loan that went sour. And what about insider lending. Rehman Sobhan's INDEPENDENT REVIEW OF BANGLADESH DEVELOPMENT Survey reports 10 out of 31 (29 per cent) and 9 out of 31 (29 per cent) of each of the two NCB long term loanes could not quite literally be traced at the address listed with the banks. One has to conclude that these fictitious loanes were manufactured by the bank officials. No penal actions were reported. The less said about Bangladesh Bank the better. It stands as a monument to serene indifference. The message of this article is not to propose a remedy for loan default (this has been done elaborately in FSRP) but to make an attempt to apportion blame in a fair and judicious manner falling which no solution is likely in the near future. FSRP or no FSRP, the villains remain in the system.

The article is a past President of the Institute of Chartered Accountants of Bangladesh.

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creasing the risk of saver causing hurt to them.

(vi) The top management of DFIs and PCBs as well as PCBs that NCBs interacted with basically gave the impression of adjusted decisions according to pressures and dictates with a concern for security and advancement in career.

### Financial Sector Reform

Apart from the numerous commentaries on our banking system the most comprehensive work has been done by the Financial Sector Reform Programme (FSRP) funded by the World Bank. The major reform measures suggested were —

(a) Central Bank move away from direct control on credit management to flexibly managed indirect monetary control.

(b) Move away from comprehensive system of controls on the level and structure of interest rates to limit cost of bank credit and to make controls flexible within limits and to allow banks to compete and respond to market forces.

(c) Intervention in credit allocation through preferential lending programme, margin requirements and minimum

ers there does not seem to have been any meaningful achievement as neither ownership reform nor regulatory reform has given the desired result largely because a system is as good as the people who matter.

In the backdrop of the above scenario, the single most important factor that emerges is that IT TAKES TWO TO TANGO. In other words without exception there is an involvement of at least two parties in every single default.

### The Quantum

Now let us review the bank loan default figures in the aggregate. It is very difficult to get accurate figures and statistics from the Commercial Banks and Bangladesh Bank as these are all shrouded in the veils of banking secrecy. Various figures are published in the newspapers practically on a daily basis. From the March 1996 'Economic Trends' published by Bangladesh Bank it appears that the total advances is shown at Tk. 39,659 crore (Tk. 10,777 crore to Public Sector and Tk. 28,881 crore to Private Sector). There are varying estimates of how much of the advances will eventually

Senior Officials)

(v) Bureaucratic and Political Cronies.  
(vi) The Bank Unions (Coercion of Officials).

As per submission earlier and as evident from international experience, no loan sanction can be envisaged without the involvement of at least two of the above mentioned players with the bank remaining constant. Let us briefly analyse the role of each of the players.

(i) The Banks: As custodians of money they perform play the major role in the disbursement of any loan. Every loan application is subject to intensive appraisal at various tiers of bank management before being placed to the Board of Directors for final approval. No doubt the NCBs, PCBs and the DFIs follow their stringent procedures for sanctioning loans.

(ii) The Borrowers: The Borrowers could broadly be classified in the following categories:

(a) The Good and Credit Worthy Borrowers who have conformed strictly to the terms of the loan and maintained their accounts to the full satisfaction of the banks.

the strong and honest regulatory function of a Central Bank.

(iv) Ministry of Finance (MOF): The role of MOF is quite fundamental as it appoints the Board, the Auditors and all the senior executives including the Chief Executive of the NCBs and DFIs. It is responsible for promotions and transfers of all the senior executives of NCBs and DFIs. The influence of MOF on the major segment of the banking sector is obvious.

(v) Bureaucratic and Political Cronies: We now step into a sordid and grey area of the arena of the banking system. An influential director of a PCB can pressurise a decision by the Board. Similarly, some cronies of a senior bureaucrat or a politician can influence a loan sanction.

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## To the Editor...

### Law and order workshop

Sir, The prime minister's initiative to hold a workshop on the law and order problem of the nation was welcomed by many, ignored by some, while none was critical or opposed to it. In my opinion such a workshop is not unimportant, given the seriousness of the problem, if and when the cross-section of people are represented in such a workshop. But, the prime minister's initiative was so confined and effortless that it looked like a DUCSU sponsored seminar in a national auditorium in the name of national consensus.

It is heartening to note that there were some people, one of whom grew up professionally right in the heart of the problem and traversed the root through one of the law enforcing agencies and held important offices of the Republic, finally holding the rank of a Secretary. He was one of the right persons to discuss the matter either with genuine frankness or concealed hypocrisy to create a smoke-screen for the ruling class. Unfortunately for the ruling circle, this person chose to be righteous and fearless. He initiated the discussion on a very sensitive matter, i.e. the making of the ruling machinery. He pointed out to the misuse of funds by all those who call themselves the law makers of the country, the custodians, who have achieved the right to sit in the most coveted building of the nation. He referred to the dishonesty while they were submitting the accounts to the Election Commission showing that he or she did not spend beyond Tk 3 lakh, the ceiling set for individual expenditure in general election in the country. The justness of the criterion inspired him to call the entire body of the guardian angels as national liars. To my mind, he deserves thanks not only from me, but also from the entire nation.

But, what happened to him was just contrary to that. He was booed, bullied and cowed into unconditional apology by the entire band of the offenders. When we see such a thing happening to the truthful and the righteous, we have no doubt that the workshops are meant to be for the 'holy ones' only. So much for the national consensus.

The whole episode was an act of terrorism and violence against the outspoken citizen, who had the right to say what he believed in. This is a denial of basic rights and hence the violation of human rights.

A K M Moshed  
Dharmaditya, Dhaka

### Whither justice?

Sir, The two letters which were published on July 25, '96, under the heading 'Jail breakers' and 'Imprisonment and release of H M Ershad' in your esteemed newspaper conveyed a very wise observation, in fact it just hit the nail on the head.

We see that in the one hand, the government has set on a massive hunt for the 13 or so criminals who escaped from prison, and offered cash rewards if anyone could inform the police about their where-

abouts, while on the other, it is entertaining two persons, H M Ershad who had been serving prison sentence for quite a number of offences, and Akhtaruzzaman Babu who had to flee the country for a grave offence. They had been welcomed back. We are appalled by this contrast. We urge the government not to be so blind, for people will lose faith in it if it plays a dual role. To whom people will turn for justice if injustice stares back at them?