

## Recovering Bank Advances

by KS Nazmul Hasan

*Of late, the main reasons for turning advances bad in our country are political dishonesty, managerial inefficiency, natural calamities, market uncertainty, competitive market, misjudgement, speculation etc. To eliminate or confront these elements a distinctive, preferably legislative government policy without any loophole coupled with well-disciplined centralised control and supervision is the call of the day.*

it will reflect in deposits, sooner or later.

Close follow up begins after selection of the borrower and sanction of loan. A good advance may turn bad in the absence of proper and timely follow up. Quite often bankers do not bother to follow up and monitor newly sanctioned loans and advances. Whereas, their function should begin after sanctioning of the loan.

They have to be vigilant that the funds sanctioned for a particular purpose are not diverted elsewhere without their knowledge. Otherwise, the very aim of the advance would be missing. Besides, bank may even lose the fund because of the misuse and/or abuse of the same by the borrower. Classification of advances may be avoided by proper and timely follow up. Through proper monitoring loans already classified can be turned into declassified ones.

Follow up and monitoring are inseparable — it is a constant process and starts with the disbursement of the loan and ends with the realisation of money in full. Regular and close supervision of the advance is likely to fetch better result.

The main factors and causes that contribute to bad debts, and their precautions are:

i) Failure to assess customer's credit worthiness, experience and capability to complete and/or run the project. That is, the failure to take into account the three 'C's'—Character, Capacity and Capital of the borrower. Without being a man of character and integrity a borrower cannot be creditworthy. His reputation in the business community and the people with whom he deals should also be taken into consideration while lending. The need to prove respectability and trustworthiness should exist. Customers tell the banker what they want him to know. A credit officer should form a view of his client. He should know whether the customer was a worker or an entrepreneur.

ii) Insufficient facts about the borrowing including why the funds are needed and how they will be required: the purpose must be one which is satisfactory from the bank's point of view. The amount is likely

to be sufficient for the given purpose and reasonable in relation to the customer's own resources. Later, factors like purpose of the advance, viability of the proposal and social benefit are getting more importance in the changing concept of banking.

iii) Lack of proper documentation and completion of securities: Because of defective documentation banks face great difficulty while resorting to litigation against bad borrowers to recover banks' dues. Legal opinion on the documents has to be obtained. And it has to be ensured that the security is free from encumbrances and/or other prior charges.

iv) Lack of up-to-date knowledge of stocks, book debts and financial position: Inspection has to be conducted at regular intervals and statements have to be scrutinised carefully.

v) Lack of meaningful credit information: All relevant information on the advance should be with the credit officer, at his fingertips.

vi) Unarranged constant excesses over limits (EOL) are indicative of ensuring trouble in business: appropriate measures should be taken to eliminate the trouble at the very outset.

vii) Lack of control: Adequate control has to be established from the beginning. Otherwise, the advance will assume an aspect not seen when the initial proposition was considered.

viii) Lack of supervision of lending: One of the most effective ways of studying the health of a business is by examining regular Balance Sheets and Profit and Loss Accounts or figures of current assets and current liabilities. Effective turnover of current assets alone generates profits to provide adequate return on capital and sufficient surplus for other provisions.

The salient features of delinquency of advances are:

i) Ineffective turnover of current assets during a period of time.  
ii) Over-loading of fixed assets that acts as a dead weight on a company.  
iii) Slowdown in receivables collection period.  
iv) Rising sales and falling profits.

v) Inventory grows faster than sales.

vi) Apprehensions of financial weakness of the borrower or guarantor.

vii) Non-cooperation on the part of the borrower in completing/regularising charge documents, security etc.

viii) Legal Notice is served on the borrower.

ix) Suit is filed against the borrower.

x) Notice of bankruptcy/liquidation proceedings against the borrower.

xi) Impossibility to locate the borrower, i.e. his whereabouts.

xii) Deteriorating trade relations.

xiii) Sharp jumps in the size of loan requests.

xiv) Loss of one or more major, financially sound customers.

xv) Persistent EOL.

xvi) Delays in meeting production, delivery or contract commitments.

As regards recovery following are the functions expected to be performed by a prudent credit officer:

i) To remain patient, tolerant, reasonable and amicable to the complaining borrower.

ii) To maintain smooth personal relationship with the debtor, despite trying situations so as to secure full repayment.

iii) To explore ways and means of getting repayment through negotiation without resort to litigation since legal suits cost each party both money as well as time, which each could use for more productive endeavours.

iv) To adopt curative measures to arrest further deterioration in the borrower's financial position.

v) To monitor constantly and closely the plan that evolved from discussion. Certain obligations are likely to arise on either side, the faithful performance of which leads to a satisfactory solution of the problem.

vi) To liquidate the advance through the realisation of security as final recourse. While doing this the bank's rights under the various forms of charge over the debtor's property and relevant precautions in

exercising those rights have to be recalled.

In 1998 the percentage of non-performing assets was increased by 3 per cent to over 35 per cent as compared to 1997. But, according to the World Bank, the proportion of the non-performing or overdue loans in Bangladesh would jump to 50 per cent if international standards are applied. Applying same standards as it is — 35 per cent in Pakistan, 20 per cent in the Philippines, 15 per cent in Thailand, 10 per cent in Indonesia and only 7 per cent in India.

The World Bank in a recent report on reforming financial system of Bangladesh identified 5 main problem areas for the banking sector. These are:

i) an unsustainably high level of non-performing loans

ii) a low loan recovery rate of less than 5 per cent

iii) an inability on the part of all local banks to meet capital adequacy requirements

iv) extremely high spreads, reflecting system inefficiencies and portfolio problems, and

v) rampant insider lending and fraudulent behaviours.

To re-arrange the capital structure of nationalised commercial banks under the scheme of reorganising the monetary sector, much emphasis was laid in the recent years to make every effort to recover the stuck up advances of these banks. Simultaneously, the Credit Information Bureau (CIB) and Inspection Departments of the Bangladesh Bank have been strengthened to carefully observe whether the scheduled banks and financial institutions are meticulous in following the instructions of the Bangladesh Bank.

It perhaps gives more satisfaction to a banker who is able to nurse an ailing advance into better health. Bankers should not advocate the writing-off of small loans on the ground that it is too costly to try to recover them. In that case the cheats and frauds will get encouragement to prosper at the expense of the honest, since all costs are recovered from those who pay up.

Of late, the main reasons for turning advances bad in our country are political dishonesty, managerial inefficiency, natural calamities, market uncertainty, competitive market, misjudgement, speculation etc. To eliminate or confront these elements a distinctive, preferably legislative government policy without any loophole coupled with well-disciplined centralised control and supervision is the call of the day.

Otherwise, commercial banks will end up with more stuck-up advances, creating engulfing uncertainties in our money market in the days to come.

## An Interview with Abdul Gaffar Chowdhury

### Waiting for a Better Tomorrow

Govinda Shil writes from Atlanta

*Like many in Bangladesh, Abdul Gaffar Chowdhury is also frustrated about Bangladesh's politics: "I am looking toward a fresh generation who will be sacrificing, establish secularism, drive the economy to its take-off."*

BDH has got to march a long way to the citadel of democracy — a meaningful democracy that would lead the nation to economic emancipation, elect upright MPs, establish secular culture, practise honest politics, and punish bank defaulters.

This has been a dream for each and every one of us in Bangladesh, one of the poorest countries in the world. But unfortunately the dream is still to come true, even after 28 years of liberation.

A renowned journalist and political analyst Abdul Gaffar Chowdhury has tried to look into the political process, which he believes, is responsible for the nation's poor performance.

"People have become apathetic (about the politics) because of terrorist activities in the name of politics and frequent hartals called by the parties," said Chowdhury, a 65 year old prominent critic.

He was talking recently to The Daily Star on Bangladesh's current politics and its economy. Gaffar Chowdhury came to Dallas, Texas from London where he lives with his family, to join a Convention on Bangla Art and Culture late last month.

Chowdhury left Bangladesh for England after the brutal killing of Bangabandhu Sheikh Mujibur Rahman and his family members in 1975.

Gaffar Chowdhury criticised the post-Mujib AL leadership who took the party to a central right-wing level from its original moderate socialistic and secular position saying the shift had erased its good image — benefiting BNP and Jamaat-e-Islami of Bangladesh.

AL policy shift has brought it closer to BNP, said Chowdhury, hinting that this policy change has availed both of them the opportunity for a political "reconciliation." Both of them have some common policies like butting up the US, concealing free market economy, allowing the terrorists and bank defaulters in

their parties, rehabilitating the anti-liberation forces, said Chowdhury.

"But unfortunately, Hasina and Khaleda have taken their political differences at personal levels. Mujib family (Hasina) thinks General Zia had a hand in Bangabandhu killing while Khaleda thinks AL is her enemy by birth."

He termed recent AL-BNP relations as a silent civil war among themselves. "A silent civil war is going on in our politics," Chowdhury said adding intervention of donor agencies into Bangladesh's politics has been barring the AL and the BNP from a complete conflict.

He criticised BNP of misusing hartals, a political weapon in democracy, saying "they (BNP) were not using it smoothly. Hartal is like fire, you have to play with it cautiously." BNP calling hartal now and then without any strong reason and it is being used to make politics chaotic and destructive, he described.

The ruling Awami League's failure to minimise people's sufferings has contributed to BNP popularising its image before the mass, he believes.

Hasina is in confusion now," he said pin-pointing her uncorrected attitudes towards Jamaat-e-Islami, known as anti-liberation force, failure in maintaining law and order in the country, rehabilitating the black money holders and bank defaulters in politics.

Maintaining of proper law and order was an election agenda of AL in the 1996 national parliamentary elections. And later finance minister S A M S Kibria started a war against the bank defaulters saying "no matter what, the money must be returned."

Chowdhury believes that corruption of the political leaders has made democracy a hostage to the black money holders and bank-defaulters. "AL will have to beg for money from bank defaulters for election."

Gaffar Chowdhury, a regular column writer of the Prothom Alo has some specific thoughts

on how to make elections more free and fair and establish strong democratic practices in politics.

"The caretaker government and the election commission must have ample authority to cancel the nominations of known black marketers and terrorists whom the political parties might nominate," Chowdhury said.

"How can people expect democracy from loan defaulters, terrorists and black money holders," he asked saying mere formation of a caretaker government is not enough to ensure a free and fair election. "Not only for three months, the caretaker government should be formed for at least six months. And it should have the authority to look into the backgrounds of the MP candidates and cancel their nominations if they are proven loan defaulters or convicts."

He said the caretaker government must have strong administrative power (to conduct a free and fair election). The interim government would monitor after the election whether any MP is attempting to foil its initiatives in combating dishonest political practices. "Chances are high for the loan defaulters and thieves that they would halt the good steps of the caretaker government."

Like many in Bangladesh, Chowdhury is also frustrated about Bangladesh's politics. "I am looking toward a fresh generation who will be sacrificing, establish secularism, drive the economy to its take-off." He says Bangladesh should come out of the trap of the World Bank, the Asian Development Bank and the IMF, who he thinks, do not want the country to be rich.

A veteran activist of Bengalee nationalism, Gaffar Chowdhury is an ultimate optimist. "Some day we will be a nation that would take pride in itself."

Not relevant though, but it could be mentioned here that Gaffar Chowdhury wrote the historic song dedicated to the Bhasha Shahids of 1952.

## LETTER FROM EUROPE

### Does the West Owe Anything to al-Andalus?

by Chaklader Mahboob-ul Alam

*"..... in the 11<sup>th</sup> century, Islamic civilisation, together with the Byzantine, Chinese and Indian civilisations embodied the First World of the time, while Western Europe embodied the Third. This is not changed by the fact that Arabic civilisation, itself a latecomer, had had to incorporate Roman baths, Persian refinements, Greek and Indian science, Byzantine-Armenian builders and Christian-Syrian scholarship. On the contrary: the rapid rise of the newly-arrived Arabic civilisation served as an encouraging model for Western Christianity...."*

We have already seen (please refer to my recent letters published in The Daily Star) how in a mere matter of four years after the landing of a Berber army at Gibraltar (from the Arabic Jabal Tariq, "the mountain of Tariq") in 711 under the command of General Tariq, the Muslims conquered the Iberian peninsula (present-day Spain and Portugal), how after close to eight hundred years in 1492 the "Christian Reconquista" was finally successful in putting an end to Muslim military and political presence in the peninsula and how in an attempt to eradicate the last vestiges of Islamic culture from al-Andalus (Muslim Spain and Portugal), the Christian conquerors prohibited Islam, banned Arabic, ordered the burning of all Arabic books and expelled the last remaining Crypto-Muslims (who had already been forcibly converted to Catholicism) from Spanish soil. This is true that the Muslim leaders were to blame for their own defeat. Their fierce individualism, unparalleled selfishness, inordinate love for ostentatious living and constant internecine (inter-Arab, inter-tribal, inter-ethnic and sometimes even among different factions of the same family) wars brought about the downfall of the Muslim military power.

Today, more than five hundred years after those distant events, when passions have cooled down and the dusts of history have largely settled, we may ask one or two questions about the legacy of al-Andalus: Were the Catholic kings and the Church really successful in eradicating the Muslim culture from Spain? Does the Christian West owe anything to al-Andalus? Did it not function as a bridge between the intellectually vibrant East and the semi-dormant West? Did the Muslim Spaniards contribute anything to the store of human knowledge? If so, what and in how many spheres can we trace their influence?

In my long sojourn in the Western world, time after time, I have been amazed by the level of ignorance of the average Europeans and Americans about other civilisations except their own and by their arrogant Euro-centric view of the world. As far as they are concerned with that of the Greeks, it seems

that there is almost a wilful and deliberate attempt on the part of the authorities to ignore the great civilisations of the Ancient Near East, the Chinese, the Persian, the Indian and indeed the Arab/Islamic civilisations. It is not my intention to undermine the importance of the early Greek civilisation but to emphasise the fact that there is a chain of development in human civilisation and although this chain is sometimes broken because of natural and man-made disasters, we, as members of the great human community build on the knowledge acquired by our predecessors in different parts of the world and it is only proper that we should acknowledge this fact with gratitude. Growth in human knowledge is to a large extent, in my opinion, rooted in intercultural exchange and cross-cultural interactions.

Actually, it is in this sphere i.e., the transmission of accumulated human knowledge, especially Greek thought that the West owes its greatest debt to al-Andalus because during the dark days of Medieval Europe, the torch of the ancient Greek civilisation was kept shining by the Arab/Islamic culture. The Church had forbidden the study of logic, philosophy and science and all recalcitrants were punished. Only Christian theology or a very orthodox interpretation of theology was officially allowed. Faith completely negated reason. Rational thinking was considered dangerous. The school of Philosophical sciences in Athens had already been closed. But most of the Muslim Caliphs of Baghdad, who had established schools of Learning, positively encouraged the study of Plato and Aristotle in philosophy, Euclid in mathematics, Galen in medicine and Ptolemy in geography. Official schools of translators were set up to translate the works of these great masters into Arabic. Islam, in the East, created an intellectual environment which was conducive to the interaction of knowledge and ideas from Egypt, Greece, India, Persia and China. The Muslims were able to forge a synthesis from these diverse elements. Baghdad, Cairo, Cordoba and Seville became centres of great intellectual activities and Arabic became the medium through which all this activity was conducted.

As Europe started emerging

out of its dark ages, it became conscious of the wealth of knowledge accumulated in Arabic. As we have seen before, Toledo, the imperial city was conquered by Tariq in 711. After 374 years, in 1085, the Christian king Alfonso VI reconquered Toledo from the Muslims. The purpose of this paper is not to analyse the reasons for the fall of Toledo. The reason why Toledo is mentioned here in this context i.e., the transmission of knowledge, is because of the important role played by the Toledan School of Translators (which was set up by the Christians after its capture) in this field. So it is curious that at this stage of the "Reconquista", although the Catholics were fighting the Muslims militarily, they were generous to the Muslims' superior culture and were prepared to learn from them. At this stage of the "Reconquista", they were not as intolerant as they became after the fall of Granada in 1492. So, although the political power passed from the hands of the Muslims to the Christians, the three communities (the Christians, the Muslims and the Jews) could live in peace. This harmonious relationship among these communities greatly facilitated the work of translation. The Jewish scholars, who were fluent in Arabic and Romance (forerunner of modern Spanish), used to translate the Arabic original into Romance and the Christian scholars would then translate Romance into Latin. While in the West, people are so proud of their Greek heritage (and quite rightly so), most of them are not aware of this missing link — it was the Muslims who translated Greek masters in Arabic from classical Greek, cultivated and preserved their thought for centuries in the Islamic East and West (al-Andalus) and gave it back to them, when conditions for such intellectual activity became ripe in Christian Europe. What a roundabout way of transmitting knowledge and culture!

In this connection, it may be mentioned here that Sicily (an island in the Mediterranean, situated at a short distance from the Italian peninsula), had also become an important centre of learning under the Muslims. It fell to the Normans in 1072, who set up a similar school of translators to retrieve knowledge from Arabic texts.

One of the side contributions of this gigantic translating activity was the introduction of many Arabic words (or words derived from Arabic) into European languages, particularly in Spanish, simply because there were no Latin equivalents of these new expressions, which came from a technologically superior culture. A contemporary equivalent of this phenomenon, in my opinion, is the introduction of so many English technical terms, particularly in the field of information technology because of the advanced level of scientific development in the United States. Again since the purpose of this paper is not to write a treatise on this subject, a few examples will suffice to prove the point.

In astronomy, words such as nadir, zenith, almanac etc. are of Arabic origin. Many stars carry Arabic names. Alcor, Algedi, Aldebaran, Altair and Betelgeuse are only a few examples; such denominations in mathematics, zero, sine and algebra can be cited as examples of Arabic influence in this field. Botanical terms like saffron, lemon, jasmine, coffee etc. are of Arabic origin. The Arabs were very advanced in Chemistry (gunpowder was introduced to Europe by the Arabs), hence words like alcohol, alkali, camphor, syrup, aquinia etc. are still used in this discipline. They were also great builders. Alhambra, aljazeera, etc. are only a few examples of the dozens of Arabic words still used in this field. The Arabs in Spain excelled in agriculture and farming. Noria, acacia, alcahola, azafran, agodon, etc. are common Span-

ish words which have their origin in very similar Arabic words. It is also interesting to mention here that even today many Spanish rivers carry Arabic names. Madrid, Alcala de Henares, Alicante are only a few examples of innumerable towns and villages, whose names are Arabic.

It would, however, be wrong to assume that all these Arabic words (some eight hundred in total), which have survived in Spanish, French, Portuguese and Catalan until today in spite of the inquisition and other attempts to purge the European culture of Arab influence, were introduced in the European languages only through the Schools of Translators in Toledo and Sicily. Emigration (the Arabised Christians settling in Christian territories in the north), trade, war, transfer of architectural skills and scientific knowledge also helped the gradual introduction of so many Arabic words into the European languages. Such was the importance of Arabic, as the lingua franca of the then civilised world that in 1492, when Columbus set sail for a new route to the Indies, he took with him an Arabic language interpreter, utterly convinced that if at the end of the voyage he came across any civilised people then they would surely speak Arabic.

In the field of Medicine, the Arabs proved to be avid students of Greek masters like Dioscorides, whose Materia Medica was revised, annotated and vastly improved. By the time the great Arab physician Ibn al-Baytar died in 1248, more than 1400 new "simples" (describing the properties of medicinal plants) had been added to the original work of Dioscorides. It should be remembered here that in medieval Europe, people relied on magic and amulets for cure, because according to their belief diseases were caused by the presence of the devil in the body. While the Christian Church re-

pressed the practice of medicine. Muslim scholars not only studied and translated the works of Greek physicians but also made investigations, wrote scientific papers, prepared drugs and practised surgery. Besides transmitting medical knowledge derived from Greek and Indian sources, the Arabs (especial mention must be made of al-Razi of late ninth century) made original contributions on the diseases of bladder, circulation of blood and infectious diseases like small pox, measles etc. Al-Razi's monumental work al-Hawi was translated into Latin by European scholars and became a standard text book for the European medical students in the thirteenth century. In surgery, Abul Casis (10<sup>th</sup> century) made original contributions in the fields of amputations and fractures. An interesting anecdote will go a long way to prove the level of excellence reached by the Arabs of al-Andalus in this field. Shortly after the fall of Granada in 1492, when Cardinal Cisneros as head of the Spanish Church, banned Islam and ordered the burning of all books in Arabic, gave instructions only to save the medical treatises. These Arabic books were later transferred to the library of the University of Alcalá de Henares, which the Cardinal founded in 1499. On a personal note, I may add that I have often reminisced about the glorious past of al-Andalus and religious bigotry of Cardinal Cisneros, while studying in this library during my years as a post-graduate student at the University of Alcalá.

Europe owes its knowledge of Indo-Arabic system of numerals including the zero to a Muslim mathematician called al-Khwarizmi (algorithm and logarithm are words derived from his name). Abulard of Bath, the famous European scholar of the twelfth century, translated Euclid (Book of Basic Principles) from Arabic originals. He also translated the Arithmetic of al-Khwarizmi into Latin. An-

other great twelfth century Western scholar Robert of Chester introduced al-Khwarizmi's Algebra (al-jabr) to the Western world. Trigonometry as a part of mathematical science was also developed by the Arabs.

The philosophical ideas of Ibn Hazm, Maimonides and Ibn-Rushd (Averroes) influenced St. Albert the Great and St. Thomas Aquinas, the founders of modern Western thought in their endeavour to reconcile faith with reason. Ibn-Rushd challenged the central dogma of Christianity that truth could only be achieved through faith alone not by reason. He aligned himself with the Aristotelian line of thinking that there existed an all-embracing scheme of things in this universe and that except the Prime Mover everything else was subject to the law of cause and effect. Again, according to Ibn-Rushd, the world was in a continuous process of evolution taking new shapes all the time.

In astronomy, Ibrahim al-Fazari (mid eighth century) translated into Arabic the great Indian work Sindhind. He is also reputed to be the builder of the first astrolabe following the Greek method. The Muslims also translated Ptolemy's Quadripartitum into Arabic. Later al-Hisab was translated by Gerard de Cremona from Arabic to Latin and became the basis for further research in the West for the development of astronomy, modern meteorology and the study of the movement of stars. A discussion on the contribution of scholars from al-Andalus in natural sciences cannot be closed without mentioning the name Maslamah al-Majriti (Maslamah of Madrid), who was considered as the Euclid of Muslim Spain. Another astronomer called al-Zarqali invented a sophisticated astrolabe called azafea, which continued to be used for more than five hundred years after his death. His astronomical observations were used by Copernicus in defining an astronomical system which centred around the sun instead of the earth. The level of excellence reached by the Arab astronomers so many centuries ago can also be discerned from the fact (as we have mentioned before) that many star names in European languages are of Arabic origin.

Drawing on the already existing knowledge (Ptolemy) of

geographical conceptions, Muslim geographers compiled vast new information about places, peoples and their customs. They also made important contributions to the idea of the sphericity of the earth, which may have played an important role in the discovery of America.

An anonymous eleventh century work in the field of botany called Umdat al-talib fi marifat al-nabat li-kull labib is still considered as one of the best attempts to classify plants into categories, species and varieties. The agriculturists of al-Andalus introduced a variety of new crops, herbs and fruits such as rice, sugar cane, pomegranates, coconut, oranges, banana, watermelon etc., by introducing efficient hydraulic systems to divert, conduct and water for irrigation; and establishing legal institutions for the administration and distribution of water rights.

These are only a few examples of the vast legacy of al-Andalus, which influenced the medieval and post-medieval civilisation of the West in a significant manner. The scope of this letter does not allow us to cover more fully the vital role played by the Arab/Islamic civilisation in the enhancement of human creativity in Christian Europe. In concluding this letter, I cannot but repeat the words of the great German scholar Claudio Lange, "..... in the 11<sup>th</sup> century, Islamic civilisation, together with the Byzantine, Chinese and Indian civilisations embodied the First World of the time, while Western Europe embodied the Third. This is not changed by the fact that Arabic civilisation, itself a latecomer, had had to incorporate Roman baths, Persian refinements, Greek and Indian science, Byzantine-Armenian builders and Christian-Syrian scholarship. On the contrary: the rapid rise of the newly-arrived Arabic civilisation served as an encouraging model for Western Christianity...."

