Learning in waterlogged classroom

Jamalpur students suffer for last six years

ABM Aminul Islam *with* Andrew Eagle

How is it possible to teach and learn in a classroom that's waterlogged? It's a question that has plagued staff and students at Bogabaid Government Primary School in Jamalpur municipality's Bogabaid village for the last six years. Of course the simple answer is: it's not possible.

"We have to make combined seating arrangements for pre-primary and class-I in the first shift," says head teacher Royena Begum, "and combine class-III and -IV in the second shift, while class-V shares the floor space with the teachers."

"Due to the cramped accommodation during the monsoon months, we can't take full-length classes and teach our 418 students properly.

"Not to mention that there is no scope for assembly or some co-curricular activities. Besides, the waterlogged classrooms carry risk of waterborne diseases and already we have had several children contract

SEE PAGE 7 COL 7

Inundated building of Bogabaid Govt Primary School in Jamalpur. *Inset*, a teacher holding a class there. Due to poor drainage system, the building remains inundated for a couple of months every year during the rains, hampering educational activities. The photos were taken recently. PHOTO: ABM AMINUL ISLAM

Saarc finance ministers meet today in Islamabad

UNB, *Dhaka*

The Saarc finance ministers' meeting begins in Islamabad today without minister-level participation from a number of countries.

State Minister for Finance MA Mannan reached Islamabad on Wednesday, a senior foreign ministry official told the news agency yesterday.

Finance ministers from Sri Lanka, the Maldives and Bhutan will attend the conference while the deputy finance minister of Afghanistan and India's economic affairs secretary will represent their respective countries, said a diplomatic source.

The Saarc finance secretaries yesterday discussed the current status of economic and financial cooperation in the region. A joint secretary at the finance ministry represented Bangladesh at the meeting, said a finance ministry official.

The recommendations for the finance ministers' meeting was finalised at the meeting.

Finance Minister AMA Muhith could not go to Pakistan due to

SEE PAGE 17 COL 2

Default loans soar

FROM PAGE 1

money every year to stay alive.

At the end of the first quarter of 2016, the nonperforming loans of state-owned commercial banks stood at 24.27 percent. In contrast, it was 6.2 percent in neighbouring India.

The default loan situation improved when the Awami League-led government assumed power in 2009, with the bad loan ratio coming down to single digit. But in June this year, it again crept up to double digits.

Economists and former central bankers have termed the situation alarming.

HISTORY OF DEFAULTS

Default loans have always been around, with some of the loans being classified as early as the 1970s.

At the time, the BB as well as the banks themselves classified the loans, and once they were realised they would be declassified automatically.

But from the 1980s, classified loans started to rise, soaring as high as 35 percent, according to Khondkar Ibrahim Khaled, a former deputy governor of the central bank.

The situation mounted pressure on the BB to classify loans based on international best practices, and subsequently new rules were introduced in 1989.

Under the new rules, the size of the classified loans expanded significantly, said Helal Ahmed Chowdhury, a former managing director of Pubali Bank.

This prompted the government to undertake a reform project under the supervision of the World Bank in 1991-95.

In 1996, the Awami League-led government formed a banking reform committee, which found the default loan situation to be severe, especially at state banks.

In 1993, default loans at state banks stood at 32 percent and rose to 47 percent in 1999. And in some troubled private banks, classified loans were as high as 50 percent.

But total default loans at private banks came down to 29 percent from 35 percent during the period.

In its observation, the committee said that despite undertaking a host of reform initiatives in the banking sector, the desired result could not be achieved because of various problems and limitations.

About the state banks, it said they turned unprofitable and their net worth was negative as well.

It also said the huge default loans had turned the banking sector risky and became a barrier to boosting investment in the economy and making effective use of capital.

In 2003, the BB issued a notice on loan write-offs that allowed banks to somewhat shrink their default loans overnight.

Default loans stood at 13.23 percent of total loans in December 2007.

When the AL came to power in 2009, it was 9.21 percent. In 2011, it even came down to 6.12 percent.

The lower ratio of default loans though was not because of recovery; it was largely because of write-offs and rescheduling.

At the end of 2009, the amount of loans written-off was Tk 15,667 crore.

Since 2011, there have been ups and downs.

As of December 31, 2015, Tk 40,361 crore was written off.

In 2015, the BB, under pressure from large businesses, gave restructuring facility to loans upwards of Tk 500 crore. Under the facility, Tk 16,401 crore has been rescheduled.

FACTORS THAT ENCOURAGE DEFAULTS

Salehuddin Ahmed, a former BB governor, said the problem was created because the loans were given through anomalies and corrupt practices.

Furthermore, the loans were never monitored, and actions were not taken to realise them even when the banks came to know that they had become default.

"The factors that caused the default loans have not been removed -- the necessary actions have also not been taken."

Ahmed said the banks are largely responsible for the default loans. They have continued to give loans in the same manner: under various influences and without looking at the quality of borrowers.

And when the loans become default, the banks find ways to keep provision against them.

The former BB governor said political influence works in two ways: when taking loans and preventing banks from taking actions, and when the loans turn bad.

"If credits are not extended properly to borrowers capable of using the money in the right business, the quality of assets created out of loan liabilities can never be ensured," said Zahid Hussain, lead economist of the WB's Dhaka office.

Poor governance at bank boards, inadequate credit information, and inadequate financial statements of borrowers are major factors contributing to poor asset quality, according to an International Monetary Fund report on Bangladesh in January 2016.

Moreover, lengthy legal procedures involving disputed loans make it very difficult for banks to recover value from NPLs or their collateral, further exacerbating loan losses, the report said.

Chowdhury, a veteran banker, said loans can turn bad unintentionally, through external shocks such as the sudden fall in commodity prices.

ACHILLES' HEEL

The banking reforms committee of the mid-1990s had identified state banks as the most problematic area -- and nothing has changed in the two decades.

Once a high performer, BASIC Bank has been reduced to a bad bank after appointment of corrupt people on its board.

Another government controlled bank, Bangladesh Commerce Bank, which was set up in 1995, saw its default loans soar to 32 percent of its total loans in June this year.

The situation is the same in other state banks.

Since assuming office in 2009, the AL-led government in many cases appointed board members on political consideration, even though the last national banking advisory committee formed by the government recommended that a panel of qualified people should pick directors.

Khaled cited the reappointment of Agrani Bank Managing Director Abdul Hamid as a case in point.

The Banking Companies Act has made obtaining a "no-objection" letter from the central bank mandatory when appointing managing directors of both state and private banks.

For Hamid's reappointment, the BB never gave the letter because of corruption allegations against him, but the finance ministry still went ahead and reappointed him.

The Banking Division even justified the move by saying that the government is the owner of state banks, so it made the reappointment.

"The central bank could do nothing here. When the finance ministry defies the law to pave the way for appointing a corrupt person, then why will corruption not take place?" said Khaled.

He noted that loans may turn bad because of unrest or other unavoidable situations in the country. But when a loan is given out through corrupt practices, it becomes bad from the very first day.

Ahmed said the central bank should shoulder some of the blame as it has distanced itself to some extent from core banking.

There was a lack of monitoring and supervising of the banking system on the BB's part, and no follow-up actions were taken at the right time, he said.

IMPACT OF DEFAULTS

Hussain said the large and ever-increasing accumulation of non-performing and stressed assets in state-owned banks hinder their capacity to provide fresh loans.

The repeated application of rescheduling and write-offs for reducing classified loans on banks' balance sheets has not yielded the intended results yet.

"Such techniques work only when they are applied in truly deserving cases without repetition. Once you start rescheduling the rescheduled loans, a Pandora's box opens," Hussain said.

It reduces the perceived cost of not repaying loans on time, thus encouraging and deepening the default culture, he added.

The IMF in January said the high NPLs, low loan recovery ratios and the correspondingly large provisions for loan losses are an important driver of interest rate spread in Bangladesh.

It is estimated that halving loan loss provisions from their end-2013 level (through an improvement in asset quality) would help bring down lending rates by 0.4 percentage points.

REMEDY

Khaled said one provision of the Banking Companies Act has to be changed.

According to the provision, the central bank can remove chairman, MD or board members and even dissolve the board and appoint administrator if their actions go against depositors or the banks.

At the same time, it is said that if the board members or the chairman are appointed by the government, the central bank will not be able to apply any power.

"It is an arbitrarily black law. How come two laws exist in the country? The law has to be amended and the central bank should be allowed to exercise its quasi-judicial power on all banks," Khaled said.

He also said the Banking Division should be made void and a search committee formed with noted economists or former governors to appoint MDs or chairmen.

"Corruption has proliferated after the Banking Division was formed."

He said the recapitalisation of state banks with taxpayers' money when they face a capital shortfall should be stopped. "The banks have to earn money to meet the shortfall."

In a study, the Bangladesh Institute of Bank Management said unconditional recapitalisation provides no incentive for doing some deep surgery to repair the banks' damaged balance sheets.

In the long run, rising stress in the state banks will require more radical reforms in their structure of governance.

The fundamental problems with the state banks are the interdependence between banks and state-owned enterprises, the way that banks are run as SOEs, and the government's improper influences on the operations of SOEs and banks, the WB said.

Also, many private industrial companies have been hit by delays in making their investment projects operational due to unavailability of basic utility connections such as gas, water and electricity, leaving them unable to repay loans to SCBs.

"Though these problems have been around for a long time and are deeply rooted, they have never really been solved," the WB said.

Without a thorough reform of the SOEs and the way that banks are run as SOEs, the problems with the banking system will remain, even after the banks are fully or partially relieved of current NPL, the Washington-based multilateral lender said.

Subsequently, it suggested strengthening the independence and accountability of state banks' boards, shoring up their balance sheets through recapitalisation conditional on improved loan recovery and temporary credit growth limits, and speeding completion of branch automation to strengthen financial reporting and efficiency.

It also called for enhancing financial sector regulation and supervision by strictly enforcing existing rules and avoiding regulatory forbearance; and completing implementation of risk-based supervision and contingency planning.

The WB called for improving the legal and financial framework for loan recovery.

The difficulties in realising collateral and lengthy dispute resolution processes have weakened the banks' ability to bring down NPLs.

"It is critical to institute simpler court procedures, alternative dispute resolution mechanisms, and asset management companies," the WB said in April.

To ensure sustainable and prudent credit operations, more innovative approaches, along with judicial use of rescheduling and write-off, are needed to end the default culture, Hussain said.

"The wilful defaulters must be held accountable, not rewarded through rescheduling."

Target fighting

FROM PAGE 1

Secretary Kerry to Bangladesh and India to meet top officials in the two countries carries special significance.

"Bangladesh's issues will come up prominently during Secretary Kerry's meeting with Indian government leaders, including External Affairs Minister Sushma Swaraj," said an Indian diplomat in Dhaka.

The US Deputy Secretary of State Anthony Blinken during a recent Congressional hearing said the US is working with India on countering violent extremism in Bangladesh.

"We have been both engaging with the government on this problem but also for example with India, given the relationship between India and Bangladesh to raise the concern and try to work together with them on countering violent extremism before it takes root in Bangladesh," Blinken said.

"That's the last thing we want," he said during a hearing on Asia organized by the House Foreign Affairs Committee on April 29.

Diplomatic sources said New Delhi's assessment is that homegrown militants are responsible for the recent terrorist attacks but the US thinks extremist groups, either indigenous or affiliated with Islamic State (IS), are responsible.

Neither the US nor India wants to see instability in Bangladesh, they said adding that these two countries also don't want to see the Awami League government face adverse challenges as its "zero-tolerance" has greatly helped address India's long standing security concerns with insurgency.

Given the relations between Bangladesh and India, the US wants to work with Dhaka and Delhi on tackling extremism before it takes root in Bangladesh, they said.

The US Department of State while making an official announcement on Wednesday about Kerry's visit to Bangladesh said "John Kerry will travel to Dhaka on August 29 to highlight the "longstanding and broad US-Bangladesh relationship."

He will meet with government officials to discuss "our growing cooperation on global issues."

"Secretary Kerry will also focus on strengthening our longstanding bilateral partnership on democracy, development, security and human rights," said Elizabeth Trudeau, Director, Office of Press Relations, in a press statement in Washington DC on Wednesday.

As part of his three-nation tour, US Secretary of State John Kerry will arrive in Bangladesh on August 29 morning between his trip from Switzerland to India.

He is expected to arrive in Dhaka on Monday morning from Geneva and depart for New Delhi later that day after talks with Prime Minister Sheikh Hasina, Foreign Minister AH Mahmood Ali, and meeting civil society representatives and the media.

Bangladesh and the United States have three prescribed talks - Trade and Investment Cooperation Framework Agreement (TICFA), Partnership Dialogue and Security Dialogue. Security Dialogue is one of the things both Bangladesh and the US are tracking which will be held in Dhaka in October this year.

The security dialogue usually covers a broad range of topics, including strategic priorities and regional issues, security assistance, cyber-security, peacekeeping, military-to-military cooperation, and counter-terrorism.

Kerry will be in New Delhi August 29-31 to co-chair the regular US-India Strategic and Commercial Dialogue (S&CD) with other senior officials from both countries.

He and US Commerce Secretary Penny Pritzker will meet with Indian External Affairs Minister Sushma Swaraj and Indian Commerce and Industry Minister Nirmala Sitharaman.

The Strategic and Commercial Dialogue is the main bilateral forum for advancing shared security and economic priorities of the United States and India, the State Department said.

Debit card for farmers

FROM PAGE 1

(agriculture credit card) with top-up farm loans ranging from Tk 10,000 to 20,000 each.

They would payback with 10 percent yearly interest rate chargeable only on the amount spent. The payback time would begin after six months.

The three-district (Faridpur, Bhola and Barguna) pilot, involving 2,500 farmers, had a soft launch in Faridpur on August 17 with a promise to soon expand the A-card among 110,000 growers in 12 south-central and southern districts. The districts are Jessore, Magura, Faridpur, Rajbari, Khulna, Satkhira, Narail, Barisal, Bhola, Pirojpur, Barguna and Patuakhali.

The A-card in an initiative to help farmers access microfinance through banks.

If successful, this pilot could transform the state of small agricultural loans in Bangladesh and increase uptake of digitally-enabled agricultural purchases, said agricultural experts.

Unlike standard MFI (microfinance institutions) loans, which generally have a cumulative annual interest rate of 25-31 percent and require weekly repayments over a 46-week period, the A-card venture is easier in both counts of low interest rate and delayed payback time.

The USAID Agricultural Extension Support Activity (Ag Extension Project) entrusted the Dhaka Ahsania Mission (DAM) to help develop farmers' access to microfinance through banks. The DAM took along CARE Bangladesh and mPower as its technical partners and together they shaped the A-card initiative.

It is to their credit that they took a commercial bank, Bank Asia, on board and ensured a good marriage between the bank and some of the local NGOs in the command areas, who have been acting as MFIs.

In this process, the commercial bank having lesser number of branches and staffs in the countryside would be using the MFIs as its agents and share the profit among themselves.

Mokhlesur Rahman of Faridpur, who grows rice, wheat, jute and rapeseeds, is one of the earliest recipients of the A-card.

"I'll be able to buy agro-input from designated retailers with the A-card. There'll be no weekly paybacks, no cash transactions. I'll payback only after six months," the farmer told The Daily Star over the phone.

Bidyuth K Mahalder, chief of party of Ag Extension Project, said as the designated retailers were authenticated by the USAID and Bank Asia, farmers would get a fair price and unadulterated inputs.

The A-card holders, said Mahalder, would repay their debts six months after spending the money and that is why "they would be in no hurry to sell their produce at throwaway prices at the beginning of harvesting just because of the pressure from traditional loan providers".

Ahsan Ul Alam, Bank Asia vice-president for agent banking, told The Daily Star that the pilot has signed up 10 input retailers in Faridpur from the Agro-Input Retailers Network, which is managed by the USAID's Agro-Inputs Project.

"Each retailer would be equipped with the PoS devices. This would enable farmers to buy inputs directly from designated retailers using their card, instead of first having to withdraw the balance of their loan in cash. All purchases would be verified using fingerprints, which will ensure that only intended farmers have access to their accounts," said Ahsan.

This pilot is the only example to date in Bangladesh where a bank and MFIs have partnered to extend micro-credit agricultural loans to farmers, said the Bank Asia VP, adding that participating farmers would be able to receive lower interest loans with more flexible repayment options, along with having the convenience of being able to use their cards to securely and easily purchase inputs from participating retailers.

Anowarul Haq, director of Extreme Rural Poverty Program of CARE Bangladesh, said they have provided technical support to the A-card initiative. He hoped that if the pilot goes well, it would be a great opportunity for smallholder farmers to have easy access to farm credit.

According to Bangladesh Bank statistics, over Tk 17,000 crore is disbursed each year as farm loans by some 55 nationalised, specialised, commercial and foreign banks in the country.