YOU NEED TO KNOW WHAT HAPPENED TO PRIVATE BANKS LAST WEEK

After page 3

People have been talking about it from the beginning of the year, and whispering about it for longer—private banks are going through a liquidity crisis. There is not enough money in hand to make the rounds, and the extent of the problem came to light last week when the government had to intervene to help them deal with the crunch.

The government offered to let government offices deposit 50 percent of their funds in private banks, raising the deposit limit from 25 percent. The government is also lowering the mandatory cash reserve (known as Cash Reserve Ratio or CRR) that all private banks have to keep with the Bangladesh Bank as a fail-safe measure. Previously they had to maintain 6.5 percent; it has now been cut down to 5.5 percent.

All this was done by the government because the interest rate for loans is in double digits, impeding business, the Chairman of Bangladesh Association of Banks, Nazrul Islam Mazumdar, told *The Daily Star* last week.

How did the private banking sector get to this point is really the question.

The private banks blamed the media, stating that media coverage of bank scams led to a frenzy of depositors withdrawing their money. The Bangladesh Association of Banks (BAB) rushed to propose that a "Bank Reporting Act" be created. In a meeting with the Finance Minister, AMA Muhith, private banks sought the government's help in "controlling" media. BAB Chairman Nazrul told *The Daily Star* that even reporting "accurate information" can lead to trouble in the banking sector, and that the media should recognise that—essentially telling journalists that they should not be reporting on bank scams. It was clear that he was alluding to the back-to-back investigations done by the media into the privately owned Farmers Bank Limited scandal, where it was found that the bank defaulted on BDT 852 crore worth of clients' deposits.

Transparency International Bangladesh Executive Director Iftekharuzzaman slammed the proposal. He told newspapers that the public has a right to information about corruption in the banking sector.

For sure the public—and perhaps more importantly depositors—have a right to know about their banks. Way before Farmers Bank went bankrupt, and way before angry depositors (including 14 government agencies at least) complained to the Bangladesh Bank this year, the media had forecast the ruin of the private institution. As early as 2016, reports surfaced about the high volume of bad loans given by the bank to individuals already identified as loan defaulters. An investigation by Bangladesh Bank during that year revealed how the bank was disbursing loans without adequate collateral and mortgage. They concluded that Farmers Bank was essentially being used as a sack of gold anyone could reach into whenever they wanted.

The public also definitely have the right to know about the fact that among the funds that the bank lost was money for the Climate Change Trust Fund worth BDT 508 crores. Nor would it in any way be right to deprive the public of the information that taxpayer money is now being used to bail out the crippled bank. Towards the end of March, the government took the decision of injecting capital worth BDT 715 crore into the bank from the state-owned Sonali, Janata, Agrani and Rupali banks, and Investment Corporation of Bangladesh. To add more context to this fact—the Farmers Bank failed to pay back BDT 700 crore worth of short-term loans which they had taken from Sonali Bank, Agrani Bank, Janata Bank and NRB Global Bank towards the end of November last year. Of the amount, nearly half was being covered by the state-run Sonali Bank. Last Tuesday, the Anti-Corruption Commission placed an embargo on the managing directors of this private bank, forbidding them from leaving the country.

Under such circumstances, is it prudent to suggest that the public be kept in the dark about bank scams in private banks? Hardly.

The reason behind the liquidity crunch ultimately lies in the culture of being reckless with depositors' money—a vice that both state-owned banks and private banks indulge in, except the former are unconditionally insured by the government. The year 2017 was the first time that private bank profits took a dip in five years, shouldering the brunt of bad loans. Syed Mahbubur Rahman Chairman of the Association of Bankers, Bangladesh, confirmed to *The Daily Star* at the end of last month that private banks are not seeing profits solely because of the volume of non-performing loans.

There is an abundance of literature on the state of bad loans in the country. To add rigour to the claims, however, we can cite a 2017 Bangladesh Bank study published last year that explored exactly what the situation of bad loans was like. The survey titled "Field Survey Report of Study on Credit Risk arising in the Banks from Loans Sanctioned against Inadequate Collateral" studied 41 banks and 574 defaulters. They covered Dhaka, Chattogram, Khulna and Bogura. The survey found that 88 percent of total outstanding loans by National Bank of Pakistan were non-performing loans, followed by ICB Islamic Bank Limited at 76.4 percent, Bangladesh Commerce Bank Limited at 31.6 percent, State Bank of India at 14.6 percent and Habib Bank at 14.6 percent. By comparison, a strong bank like Citibank NA only had 1.93 percent of non-performing loans.

The survey also explored how this came to be, asking the tough questions about nepotism, and for sure the researchers were not disappointed. They found the banks sanctioning loans based solely on personal relationships, not taking into account whether the debtor had enough collateral to offer. To make the situation worse, their documentation was weak leading to a gap in knowledge about the people they were lending to. The survey also reported that politically influential people sought nepotism from top-level management when it came to loans. Sometimes the nepotism took a darker turn and turned into undue pressure, leading bank managers to overlook factors like the borrower's credit risk. In fact the research found that since the banks do not follow a common standard for examining the market value collateral, it allows borrowers to use it as a loophole and influence decisions. Most of the non-performing loans also belonged to industrial borrowers, they found, hinting at the existence of a nexus between politicians, big businesses and banks.

The finding that nepotism and political clout play a significant role in the disbursement of bad loans is even more alarming when put into context with a recent amendment made to the law governing bank management. The Bank Company (Amendment) Bill 2018 was passed in the parliament in January, and will allow a commercial bank's board of directors to have up to four members of the same family. Furthermore, a bank director can now hold a place in the board for nine years at a stretch, up from what was previously six years. This amendment divided the parliament, inciting the criticism that this will weaken the collective ownership needed to keep banks strong, and line the pockets of individual families instead.

ILLUSTRATION: KAZI TAHSIN AGAZ APURBO

> The Bangladesh Bank researchers also observed that not all the banks had strong enough departments needed to assess a person's credit, or evaluate the worthiness of collateral. As a result, persons identified as habitual defaulters fall out of their radar.

The Bangladesh Bank researchers also observed that not all the banks had strong enough departments needed to assess a person's credit, or evaluate the worthiness of collateral. As a result, persons identified as habitual defaulters fall out of their radar. An example remedy would involve banks sharing a registry of all their collateral, while Bangladesh Bank can maintain a central data hub on the different values of different collateral.

In light of the fact that experts are concerned about the scenario of bad loans in private banks, how effective would the recent government moves be, in tackling the liquidity crisis?

Experts suggest that the government's measure to reduce the Cash Reserve Ratio, so as to allow private banks to have access to more liquid capital is not the way to go. Zahid Hussain, Chief Economist of World Bank's Dhaka office wrote in *The Daily Star* last Monday, "Most analysts agree that the underlying cause is deficit in corporate governance in these banks, particularly in the loan risk management and collection of non-performing loans. Banks who have done badly in these areas are the ones having the most difficulty in complying with the CRR. The CRR reduction will help them avoid the penalties for non-compliance, but it does little to incentivise improvements in corporate governance."

On the other hand, Dr. Ahsan H Mansur, Executive Director of the Policy Research Institute told *The Financial Express* that the government's decision to allow their departments to deposit 50 percent of their funds into private banks, should only be limited to strong banks. The idea is definitely worth noting seeing that Farmers Bank made off with so much money from the Climate Change Trust Fund.

The Bangladesh Bank study also proposed reforms that could be taken into consideration to improve governance. For example, they recommended that loan defaulters who are also the members of different chambers of commerce not be allowed to participate in elections. They also suggested that banks can coordinate among themselves to ensure that a current loan defaulter is not able to get another loan until the dues are settled.

Yet who would the government be to recommend these reforms, when our state-owned banks remain debt-riddled for years. The government is to once again bail out Sonali Bank, Janata Bank, Rupali Bank, Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, and Grameen Bank with an amount of BDT 2000 crores (BDT 20 billion); an amount which is apparently only 10 percent of what they need. Compared to this, the bailout package of the Farmers Bank scam is a drop in the ocean. This is hardly the first time that these banks are being rescued. When the state is allowing its own house to run amok, how will it fix its neighbours'? ■

MYDHAKA

TABASSUM ZAMAN

A LIFE ON PERPETUAL TENTERHOOKS

The city is like a text. It always gives us clues in many forms into its inner world. Reading those signs may allow us to see a pattern leading to the city's psycho-social world. Why is this even important? Because this is the invisible landscape that conditions the visible one, determining the way we behave in the city. Let us consider Dhaka. How does living in Dhaka feel ? It is like being on perpetual tenterhooks.

While it is not uncommon to find kindness and compassion for fellow human beings in the unlikeliest of places, the predominant mood that engulfs Dhaka remains one of misgivings. On the surface, Dhaka dwellers come across as a bunch of loud and confident urbanites—their actions in public decisive, but their minds always tiptoeing around the city in apprehension of some sort of danger or potential risk.

Any daily activity—even those as mundane as buying food—leaves you as tense and taut as the strings of a bow. You cannot let your guard down in fear of your trust being compromised. The nefarious public image of Dhaka intensifies the pressure on your nerves. The city is regularly cited as an infamous breeding ground for all sorts of environmental pollution that holds many health risks. It is in fact a commonly held belief that once you have breathed in Dhaka's air and eaten Dhaka's food, your system is immune to anything else. It is from such assumptions that you expect a friend or relative returning from abroad to look healthier and fresher, i.e. to have gained weight, as s/he is believed to be on fresher and purer intakes.

Another everyday practice which betrays Dhaka's infamously untrustworthy reputation is that of relatives, friends, neighbours or co-workers enthusiastically sharing homegrown summer fruits from their rooftop gardens, or their villages, with the emphasis that they are not from the city stores, which can hardly be trusted.

It is not every day that you have the fortune of biting into a handful of lychees or jamruls without having to worry about their purity and freshness. Insecurity regarding food, however, is just one example. There are numerous other aspects of urban life that continuously add to the edginess that is intrinsic to living in Dhaka.

You cannot slack, and are always on full alert. Conditioned by a pro-rural sentiment, the sense of mistrust is so ubiquitous that by extension it quite easily becomes an unconscious castigation of all things urban.

In terms of social life too, Dhaka holds wide-ranging dangers. Living in Dhaka, for many, has become a life lived in perpetual fear of some unforeseen evil—one's property is always at risk of being grabbed, one's life can be endangered on the road due to reckless and aggressive driving or urban crimes of varied natures. In short, some dreadful interventions in our daily lives are hardly surprising.

Predictably, many of us grew up on parental advice against talking to, going anywhere with or eating anything offered by a stranger. Unfortunately, however, Dhaka's ever-changing composition is such that strangers are all we get—as neighbours, co-workers, or service providers. Peopled by internal migrants to a large extent, Dhaka poses a daily threat to the comfort we may feel in familiarity. In this, Dhaka is like most other big cities in the world, but the difference perhaps lies in the acute fear of strangers that we are conditioned in.

It is this anxiety about the 'dubious stranger' that makes people forge any possible link based on one's *desher bari* (ancestral home). For migrants, this is very natural when they first venture into the city to stay in touch with acquaintances, no matter how distant, from their own locality—for even a distant relationship solidifies into a dependable support system in the early days in the city.

For long-term residents of the cit,y too, the myth of the baleful stranger is no less important. The everyday choices we make often depend on the imaginary ties we create with selective people that make life liveable amidst the atmosphere of mistrust and misgivings. Take your regular grocery shopping for example. Chances are that you trust this fish-seller over that one simply because this particular one claims to hail from your ancestral hometown and is less likely to breach your trust with inferior wares, or so you assume. Thus, you arbitrarily forge a causal relation based on the flimsiest of ties and with a willing suspension of disbelief, only to temporarily avert the risk of falling prey to the archetypal menacing figure of the stranger.

Given this atmosphere of distrust, familiarity is nothing less than a social capital, giving rise to common interjections like "do you know who I am?" Knowledge is power indeed! Aware of its currency, and as if to ward off the sinister associations that come with unfamiliarity, the city dweller is often seen to play the 'familiarity card'—based mostly on common locality/region—whenever orientation to new people or situations is called for. The general assumption is: when one meets a stranger from one's 'original' hometown, it is likely to ease their existentialist angst regarding the desperate need to hinge their trust somewhere safe in a sea of strangers.

This mindscape has ripple effects. This high-strung life, this constant vigilance wears us down, resulting in a pathological reserve, atypical of the western urban pathology of anomie and boredom. This does call for a preference for an insular existence, but more like a protective instinct that in turn increasingly encourages people to seek refuge inside walls, compartments and other forms of self-made bubbles minimising exposure to adversities. Back in 2008, urbanist Kazi Khaleed Ashraf wrote about how the biggest investment in the city remains on walls and fences. Things have gotten worse since then. Dhaka has become a fragmented city with its walled enclaves for houses in the name of safety measures for oneself and the next generation. This disassociation and disengagement with the city does not bode well for Dhaka, or any city for that matter.

Today more than 50 percent of the world population live in urban areas. Following that trend, Bangladesh's urban population is on the rise too. With approximately 35 percent of the population living in urban areas at present, the steady growth pattern can only mean that the country will probably see 50 percent, or higher, urban population within a couple of decades. Castigating the city, or generating a negative urban discourse will surely not make things better for our over-burdened megacity. It is time we take the city's psycho-social drift more seriously and be more careful about the urban pathology it generates. Images are powerful; they can propel the future. We desperately need some powerful vision of the city to counteract this air of recrimination. The power of discourse is such it can inform the future.

We need to create that discourse by looking at our strengths. Some self-reflection is in order. It is not easy to live a life under a sense of constant foreboding. But we do get by, we devise our own tactics, we make do. Maybe it is time to tell those stories and play on our strengths. If not now, when?

ILLUSTRATION: KAZI TAHSIN AGAZ APURBO

A Dhaka girl through and through, Tabassum Zaman teaches at the University of Liberal Arts Bangladesh (ULAB). She is a Dhaka enthusiast, who wants to tell the everyday city anew.