

What is needed to make the AMC solution work?

ZAHID HUSSAIN

THE government wants to form a public asset management company (PAMC) to buy distressed loans from banks. A special law is reportedly being prepared to empower the PAMC to purchase non-performing loans (NPLs) from banks, restructure and sell them to individuals or corporate entities. This is intended to get around the legal complexities to recovering NPLs. The AMC option is reportedly being crafted after conducting an extensive analysis of seven Southeast Asian countries on how they handled large amounts of default loans in the aftermath of the Asian financial crisis (1997-99).

Indeed, countries having fragile banking systems due to high NPLs have turned to asset management companies (AMCs) as a central strategy for cleaning their bad loans. Indonesia, South Korea, Malaysia, and Thailand established centralised AMCs soon after the onset of the financial crisis in 1998. Kazakhstan, Kyrgyz Republic, and Mongolia, which experienced bank runs and financial instabilities in the early 1990s, did the same. The United States, Sweden and Mexico have used centralised AMCs to solve their big and small financial crises.

A few other countries adopted a decentralised approach to the bad loans problem. Argentina, Norway, and Poland adopted private individual workout units, instead of centralised AMCs, but the motivations—that of unbundling banks and facilitating credit intermediation—are the same as those of centralised AMCs. India, Philippines, and Taipei, China have enacted laws, or provided for fiscal incentives, for the establishment of private entities that can help unload bad loans from banking institutions.

Do AMCs lead to improved behaviour and performance of the banking system? This is the most fundamental question. The answer depends on whether they come with reforms that address the root cause of the problem. The evidence is mixed at best. No surprise there since the AMCs varied very significantly in their design and performance.

The use of AMCs in various banking system resolution strategies to deal nationally with the 1997-98 crisis generally proved effective and efficient in managing NPLs in the East Asian region. At the height of the crisis, AMCs were important tools in cleansing bank balance sheets, ensuring capital adequacy, and safeguarding financial stability in the banking sector. This helped banks resume private lending and catalyse recoveries in economies gravely hit by the crisis.

The Chinese government set up four asset management corporations in 1999. In their early days these AMCs made a limited contribution to the resolution of the NPL problem. They acquired well over half of the NPLs of the big four banks and resolved no more than half of those acquired. However, the AMC losses surpassed the financial contributions to the AMCs from both the Ministry of Finance and the People's Bank of China. With their cash recoveries lagging the interest obligations, they faced cash flow pressures. In response, the Chinese government offered investment banking business licenses as incentives for the AMCs to meet the deadlines and recovery targets of their NPL resolution. The AMCs were allowed to diversify.

The AMCs in China were initially capitalised with 10-year bonds. It was generally anticipated that the bad banks would complete the task of cleaning up the financial system within that period, at which point they would be wound down. Instead, after 10 years the bonds were rolled over, giving the AMCs a new lease of life. After spending a decade diversifying, the big four AMCs returned to their core competence and dedicated more resources and energy to resolving NPLs. Chinese commercial banks' NPL ratio hit a 10-year high of 1.89

percent at the end of 2018 amid an economic slowdown. Separate from NPLs, "special mention" loans, or lending potentially at risk of becoming non-performing rose to 3.16 percent of the total loan volume for commercial banks. The NPL reached an all-time high of 12.4 percent in March 2005 and a record low of 0.9 percent in September 2011.

The AMC path is saddled with challenges. Asset management companies can trigger moral hazard induced bank lending when the NPL transfer to the AMC entails little cost to banks. Empirical examination of Thai AMCs found that moral hazard-induced bank lending resulted in creating newer NPLs under the public AMC regime. The public AMCs allowed the transfer of bad assets from state-owned banks (SOB) at inflated prices. In contrast, the Thai Asset Management Company regime was able to decrease the new NPL ratio, presumably due to better control measures addressing potential moral

the performance of the asset management companies. For instance, recovery values may be deemed too low compared to book values of assets, but not when compared to market values at the time of acquisition of purchased assets. Political insulation allows professional approach in the management of AMCs.

The legal framework largely determines the AMCs' ability to exercise ownership rights. Korea and Malaysia had more modern bankruptcy laws and relatively efficient judicial systems, unlike Indonesia, Philippines, and Thailand. Restructuring and asset disposal face long delays when the legal framework has a strong bias toward debtors who refuse to pay. It causes uncertainty in determining the price of the collaterals and the ability and timing of seizing the collaterals. Extrajudicial powers to overcome debtor resistance in such cases help only if it can be used without bowing to political pressure that protect well-connected debtors.



hazard effects on banks.

Financial and corporate sector weaknesses played a major role in the Asian crisis in 1997. Weaknesses in bank and corporate governance, lack of market discipline and weak enforcement of prudential regulations allowed excessive risk taking. Corporate sector problems represent the flip side of banks' nonperforming loans. Close relationships between governments, financial institutions, and borrowers worsened the problems. More generally, weak accounting standards, especially for loan valuation, and disclosure practices helped hide the growing weaknesses from policymakers, supervisors, market participants, and international financial institutions. Available indicators of trouble were largely ignored. Sounds familiar?

Political independence is key to accounting for the varied AMC performance across the world. This includes the AMC's ability to exercise ownership rights, restructure assets, and apply commercial, rather than political, criteria in pricing the acquired assets. Appropriate pricing provides the proper benchmark with which to assess

AMCs cannot work without a supporting environment enabling the market to carry the asset resolution process without depending too much on government-led initiatives. The essential ingredients of a supporting environment include an effective legal system defining the rights of ownership and the legal obligations between debtors and creditors; a sound regulatory and supervisory framework facilitating rational decision making in the management of NPLs; a neutral tax framework promoting both financial transactions and restructuring; and good governance to safeguard the effective operation of PAMCs with a sufficiently independent board capable of resisting political interference and pressure from borrowers. An AMC is not the most suitable framework to tackle large exposures to wilful defaulters. A high concentration of NPLs and problem assets in SOBs and the dominance of large loans in the NPL stock warrant targeted bank-level solutions.

Zahid Hussain is an economist.

High suicide rate among young housewives

Eliminate root causes immediately

WE are horrified to learn from a cover story in *Star Weekend of The Daily Star* on September 27 that a total of 1,086 women committed suicide in the six upazilas of Jhenaidah district between 2014 and 2018, while another 9,373 women attempted suicide during the same time, according to data from the district civil surgeon's office. Society of Voluntary Activities (SOVA), a local NGO working on this issue, estimates that around 80 percent women who committed and attempted suicide were housewives. The findings are disturbing, to say the least.

The main reasons behind these suicides have been identified as torture by husbands and in-laws, dowry related violence, child marriage, drug addiction and the practice of polygamy by husbands, and domestic conflicts. Clearly, women in the district are in a vulnerable situation because they are totally dependent on their husbands' income. Most women do not have the educational qualification needed to be economically independent. The SOVA survey found that of the housewives who committed and attempted suicide, 44.7 percent had no formal education, 15.8 percent had primary and 39.5 percent had secondary education.

Although we have the necessary laws to prevent child marriage, it still takes place—mostly in the villages—because of a lack of enforcement of the laws and the existing legal loopholes. Similarly, the dowry laws are also not enforced because it is still considered a part of our culture. Child marriage and dowry practices are criminal offences and those who are engaged in such acts should face strict punishment according to our laws. Also, only criminalising such practices are not enough, we should work towards changing the society's mind-set to stop these social evils that are leading to so many deaths.

The government needs to take proper preventive measures to address this issue. The suicide rate of farmers in Jhenaidah is also very alarming. It is still unclear why the directives given by the prime minister herself with regard to establishing an institution in the district dedicated to studying suicides and finding ways to address the problem has not yet been implemented. The issue is serious and it needs immediate attention.

Over-usage of antibiotics in cattle

Severe dearth of veterinarians

FARMERS are treating cattle diseases with a mixture of antibiotics that has reached dangerous levels.

The meat and milk we consume could be harmful for us because of this. Rural farmers have been turning to pharmacies in a bid to tackle the various diseases that affect their livestock because there are simply not enough veterinarians (vets) available. That, coupled with the fact that our farmers remain largely ignorant of precisely how much medication can be administered to their animals before the meat (or milk) becomes a health hazard as it enters the food chain, has made the situation worse. What we know from conducted studies is that antibiotics used to treat infections caused by bacteria, protozoa, parasites and fungi ultimately end up in cattle milk. The presence of high levels of antibiotics in milk ultimately result in antibiotic-resistance in human bodies.

While it is easy to blame lax monitoring for this situation, it is also true that rural farmers often have to rely on quacks and pharmacy compounders for veterinary advice. With some 65,000 commercial cattle farms boasting an estimated population of 2.39 crore cows, Bangladesh suffers from a severe shortage of vets, and in this situation, farmers are often recommended to administer their cattle with human-grade antibiotics. As pointed out by officials of the department of livestock services, each upazila has only one veterinary surgeon to look after all the cattle in the area. With some 118 posts of veterinary surgeons vacant, the department faces an impossible task.

That basically sums up the situation. In the absence of requisite number of vets at upazila level, the situation cannot be expected to improve. Only when farmers have access to professional vets can we expect them to take up the issue of public health seriously. Authorities need to take the issue of recruiting qualified vets seriously and this should be done on a priority basis. Public health should not be endangered because there is a dearth of qualified veterinarians at upazila level.

Sonia Gandhi's deja vu moment



PALLAB BHATTACHARYA

a crucial test of her leadership in the October 21 assembly polls in Maharashtra and Haryana against a surging Bharatiya Janata Party.

Taking over the mantle as Congress President from her son Rahul Gandhi who quit owning responsibility for the rout in the Lok Sabha battle, Sonia finds herself in the same predicament as she did more than two decades ago when she became the party head for the first time—intense factionalism in the organisation closely followed by defeat in parliamentary elections. Today, the Congress is in a direr strait as added to the internecine war and national poll loss is the defection in party rank and file and a sense of disarray which, taken together, have made the party's task that much more difficult in the coming polls in Maharashtra and Haryana—both ruled by the BJP since 2014.

The Congress is still reeling under the after-effects of the parliamentary election debacles including in Maharashtra and Haryana. For three months after Rahul's resignation as party chief, the Congress was bogged down by leadership struggle failing to find someone outside the Gandhi clan to replace him and then settling for Sonia as "interim" President and its possible messiah. As the Congress spent weeks to find a replacement for Rahul as its chief, the BJP, seeking to cash in on the momentum of national poll victory, got down to the task of preparing for the Haryana and Maharashtra state polls.

There is recognition in the Congress that the challenge before the party in Maharashtra and Haryana state polls

is Himalayan as it is confronted with the relentless election machinery of the BJP, and Prime Minister Narendra Modi government's withdrawal of special constitutional status of Jammu and Kashmir and its bifurcation which appears to have gained country-wide traction. In fact, in Haryana, the Congress chief ministerial face Bhupinder Singh Hooda has backed the Modi government's move on Kashmir.

In Maharashtra, electorally the most important state after Uttar Pradesh (Uttar Pradesh has 80 Lok Sabha seats and Maharashtra 48), a major headache

partnership deciding to contest 125 seats of the 288-member state legislature.

If the results of this year's Lok Sabha elections are anything to go by, prospects of the Congress and the NCP in Maharashtra assembly poll look bleak as their combined vote-share was about 37 percent as against approximately 47 percent of the BJP and its oldest saffron ally Shiv Sena. Like the Congress and the NCP, the BJP and Shiv Sena are also fighting the coming assembly polls in alliance for the first time. When the two saffron parties had contested the previous assembly elections separately in 2014, the

in the state. The Congress may need to devote more time in keeping the two rival factions under leash till the elections than challenging the BJP on local developmental issues as well as the national issues of economic slowdown and joblessness.

Another worry for the Congress is that Bhupinder Singh Hooda faces a slew of corruption cases relating to land allotment and acquisition. Charge sheets have been filed in two of the five cases while probe is on into the others. The other major concern for the Congress is that by projecting Hooda as its campaign face, the party may have polarised the state's political scenario into a battle between its dominant Jat community and the non-Jat. The Congress has its task cut out as the BJP swept all the ten Lok Sabha seats in Haryana just four months ago.

A big question for the Congress in Maharashtra and Haryana is whether Rahul Gandhi will join the party's campaign there. Ever since the parliamentary poll defeat, Rahul is reportedly keeping a low profile in the party's activities, particularly when it comes to organisational matters. That may put extra pressure on Sonia as party President even though she has largely been off the election campaign trail since April 2017 due to indifferent health. Will she hit the ground running in Maharashtra and Haryana this time?

It took Sonia Gandhi six years to lead the Congress to victory in national elections in 2004 after becoming the party chief and then again in 2009 when Atal Bihari Vajpayee was the BJP's Prime Ministerial face. In 2014 Lok Sabha poll, Sonia-led Congress suffered its worst electoral defeat against a Modi-charged BJP. Rahul was hardly any different for the Congress in 2019. Now that Sonia is back in the saddle, can she change the party's fortunes in Maharashtra and Haryana? There are no two opinions that Modi is different from Vajpayee when it comes to aggressively and resolutely pushing the party's march forward without brooking any resistance.

Pallab Bhattacharya is a special correspondent for The Daily Star.



Indian Congress Party President Sonia Gandhi waving to supporters during a road show in Varanasi on Aug 2, 2016.

PHOTO: AFP

for the Congress and its ally Nationalist Congress Party led by veteran Sharad Pawar in the forthcoming assembly elections, is that both have been hit by defection of a number of their important leaders in the last two months. Almost all their defected leaders joined the BJP. The NCP was hit harder by the switch of loyalty by its leaders as this has dealt a blow to its traditional clout in sugar belt and cooperative banking sectors in some regions of the state. Unlike the last assembly polls five years ago, the Congress and the NCP are fighting the coming battle in Maharashtra in

BJP emerged as the single largest party with 122 seats and the Sena a distant second with 63 only to form a post-poll coalition government.

In Haryana which has a 90-member legislature, the Congress's key challenge is to make its state unit click as a united team. Sonia Gandhi has managed to work out a truce in the unit recently by anointing Hooda as the party's campaign face and Kumari Selja as the state unit President in place of Ashok Tanwar and Kiran Chaudhary. Both Tanwar and Chaudhary are sulking and this could exacerbate feud within the Congress

LETTERS TO THE EDITOR

letters@thedailystar.net

Fruit adulteration unacceptable

Fruits are an essential source of our daily nutrition; they boost our immune system and provide our bodies with essential vitamins and minerals. Unfortunately, a number of unscrupulous businessmen are playing with our wellbeing by adulterating fruits in order to maximise their profits. And the administration is doing nothing to stop this and punish the culprits. One-off drives are sometimes conducted to destroy adulterated fruits, but these are just stop-gap measures. These should be carried out throughout the year. The common people are suffering and it is high time the authorities take strict measures to address this problem.

Mohammad Abu Hanif, Chandanaish, Chattogram