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Hasina-Modi meeting bodes well for stronger ties

We hope unresolved issues will be addressed soon

The meetings between prime ministers Sheikh Hasina and Narendra Modi just before the G20 Summit has further consolidated the bilateral relations between Bangladesh and India. The Indian premier's expression of gratitude for the Bangladesh government's role in ensuring peace in India's northeast region is a fact for which the Hasina government deserves full credit. The invitation extended to our prime minister to attend the G20 Summit was indeed a most welcome gesture. It is a further testimony to the personal dynamics between the two heads of states that have developed over the years and deepened the strategic ties between the two countries. Although it is not expected that major bilateral issues will be solved on the sidelines of such a summit, it is encouraging to note that both sides expressed the commitment to collaborate and cooperate on ensuring political and economic stability.

At the same time, we must note that although three MoUs have already been signed at the meeting, they did not apparently address some of the issues brought forward by our prime minister. One was to request India to ensure uninterrupted supplies of essential goods to Bangladesh, which is crucial for food security as well as to maintain price stability of essentials – a critical factor in an election year. Bangladesh-India trade is about \$14 billion, and essential commodities comprise a major part of it. The other important issue was Hasina's request to Modi to extend cooperation for quick repatriation of the Rohingya to Myanmar. As we know, Bangladesh and Myanmar are working on repatriating 3,000 Rohingya initially, with mediation by China. We hope that the "constructive and positive approach" expressed by the Indian prime minister in safe and sustainable repatriation will have a significant impact in the near future.

The meeting with the Indian prime minister holds special significance for Bangladesh's prime minister because it is taking place only a few months before our national election. Speculations continue regarding India's neutral stance regarding the Bangladesh election, which is quite different from that of the Western nations, who have been reiterating their wish to see free and fair polls here. But it is quite evident that the Modi government would prefer a continuation of the deep ties that have been developed over the years with Bangladesh, thanks to Prime Minister Sheikh Hasina.

Bangladesh is one of the most important strategic partners of India, and India is Bangladesh's most important neighbour as the latter shares almost the whole of its border with the former (except for the small stretch with Myanmar). Therefore, it is in the interests of both countries to smooth out whatever unresolved issues there are between them. For Bangladesh, it is important that India takes decisive measures to resolve the long-standing water-sharing issues (especially that concerning the Teesta River), the significant trade deficit with India, and the border killings which still continue. We hope that the warmth and bonhomie shared by the two prime ministers will lead to greater economic and strategic ties that will be mutually beneficial.

Fix our dismal literacy rate

Why is one in four people still illiterate in the country?

We are utterly disappointed at the slow progress made over the last three decades to eradicate the scourge of illiteracy from the country. Reportedly, one in four individuals is still illiterate in Bangladesh, despite the fact that projects worth at least Tk 4,232 crore have been undertaken by successive governments since 1991 to wipe out illiteracy. According to the Bangladesh Sample Vital Statistics 2022 of the Bangladesh Bureau of Statistics (BBS), at present, 76.8 percent of Bangladeshis aged seven and above are literate, while the rate is 74.4 percent among those aged 15 and above. While this may be considered significant progress if we compare it with the literacy rate in 1991 – only 35.3 percent among people aged 15 and above – we are still lagging far behind our goal of reaching 100 percent literacy by 2030.

Reportedly, the Bureau of Non-Formal Education (BNFE), the authority of non-formal education in the country, implemented nine projects over the last 30 years, while one project is still in progress. But educationists have pointed out that these schemes have not been able to get us the desired results due to a lack of proper approach towards the issue. According to them, the projects that the authorities undertook were narrow-focused, instead of being holistic. Experts say literacy can be attained in two ways: through formal education and through adult literacy projects. Our focus, however, has always been on formal education, with adult literacy getting less priority. And the projects aimed at providing non-formal education to primary school dropouts and children who never went to school were not very successful either, as those were mostly based on theoretical knowledge. Reportedly, the beneficiaries of these projects soon forgot what they had learnt and could hardly sustain their literacy skills.

Now, the question is, how should the authorities proceed to reach the target of 100 percent literacy by 2030? Experts suggest that taking a comprehensive approach – giving non-formal adult education more importance – is the key. While the authorities must increase their monitoring of the ongoing project, they should also make sure that future projects are more streamlined with effective measures, and there is better coordination among these projects. Checking the allegations of irregularities in the projects is also crucial. And since poverty still remains the biggest barrier to our literacy attainment – which was made worse by the Covid-19 pandemic – authorities should consider providing financial and other incentives to poverty-ridden families, particularly in vulnerable communities, to encourage them to participate in literacy projects.

Banking sector reform can no longer be delayed



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SHARJIL HAQUE

Global credit rating agency Moody's recently downgraded its outlook of Bangladesh's banking sector from "stable" to "negative." Anyone following the endless crisis in this sector would say this was inevitable. Reported estimates suggested that the amount of bad loans was as high as Tk 120,649 crore at the end of 2022. The cost incurred by the default culture in Bangladesh can hardly be overstated: excessive non-performing loans (NPLs) reduce GDP growth, stunts economic development, and exacerbates income inequality.

How can we eradicate this culture of loan defaulting? First, policymakers must substantially strengthen the enforceability of regulations and make the bankruptcy system efficient. Second, banks must tighten up their loan monitoring methods once a loan is disbursed. And third, Bangladesh Bank should consider further development of bank stress tests.

In Bangladesh, the primary reason behind excessive bad loans is a general lack of governance and, in particular, the inability to enforce banking regulations, which breeds corruption and moral hazard. Consequently, decisions on credit intermediation tend to be driven by political connections or outright bribing of bank executives, without any serious consideration of a borrower's debt repayment capacity. More generally, when the legal system in an economy is not strong, and policymakers routinely amend regulations to serve the purposes of powerful groups with vested interests, it is only inevitable that unethical borrowers will default without fear of adverse consequences. Demonstrating strict punishment is the only way to change the deeply entrenched mindset that a large borrower can get away without repayment.

Unfortunately, the government has long shied away from any serious overhaul of financial regulations. Such an overhaul would entail increasing the accountability of bank management and strengthening the bankruptcy system so that lenders have sufficient ability and incentive to identify and penalise willful defaulters. Policymakers need to consider setting up new bankruptcy courts that administer the elements of the bankruptcy process, including disputes related to legal settlements, and appoint insolvency professionals who can help banks recover as much of defaulted loans as possible.

If first-order problems such as enforceability and bankruptcy resolution can be strengthened, the second step is to tighten up the banks' risk management practices. Before



Reforming our banking sector is long overdue.

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disbursing a loan, a bank must carefully screen creditworthy borrowers based on their financial statements, collateral quality, and projected ability to repay debt. After a loan is disbursed, banks must continue to monitor borrowers.

One of the most common mechanisms to monitor a borrower is to use loan covenants, which are restrictions on the actions a borrower can take after a loan is disbursed; they are typically written into the initial loan agreement. For example, one of the most common loan covenants used by banks globally is the minimum earnings-to-interest-expense ratio (or the "interest coverage ratio") that a firm must maintain. In the US, many banks require borrowers to have an ICR of at least 1.5 or more. This means that the borrower's cash flow or earning must always be greater than its required interest payment by at least a factor of 1.5. Every quarter, a borrower must report their financial statements to the lender in order for the lender to verify compliance with loan covenants. If a borrower violates this requirement, the bank gets the contractual right to demand immediate repayment of the loan, raise interest rates on the loan, lower loan maturity, or demand additional collateral. The expectation of this type of punishment ensures that the borrower has sufficient incentive to generate adequate cash flow to always avoid defaulting on a loan. At the same time, a covenant violation gives the lender an early signal that a borrower might be in financial distress. But the

defaulting on their obligations.

Regulators and economists at the Bangladesh Bank must consider using more granular data when they conduct their periodic stress tests of bank loan portfolios. The idea behind stress tests is to see how resilient the banking system is to an unexpected economic or financial crisis, and how well it can support an economy during a recession. How should stress tests be designed to truly assess banking sector vulnerabilities? And are the stress tests conducted by the central bank effectively capturing emerging risks? In my professional view, corporate default probability needs greater attention in this regard.

The non-performing loan (NPL) numbers we hear of are what economists call an equilibrium outcome, meaning that it is the result of choices made by two parties: the lender who supplied credit and the borrower who demanded credit. Therefore, simply looking at bank-level data (such as the sensitivity of capital to risk-weighted assets to various recessionary scenarios) is not enough. When there is an aggregate negative shock (for example, a pandemic), it will hurt everyone in an economy simultaneously. Examining one party in a loan agreement, without considering the financial condition of the other, overlooks the full picture.

As a first step, BB's stress tests should be able to predict default probability at the borrower level to get a clearer picture of underlying credit risk. While it is commendable

that BB's current stress tests take concentration risk quite seriously and estimates the effect on NPLs if the top three borrowers default, understanding the full extent of corporate default risk requires generating default probability for each borrower. When estimating the probability of default at the borrower level, researchers must directly incorporate the borrower's

outstanding debt, their existing stock of cash, historical cost of borrowing, historical tendency to default, access to alternate sources of capital, and the amount of assets that can be sold in the event of serious liquidity problems.

The best way to better understand corporate default risks is to generate more data and produce greater information. Such data encompasses detailed financial statements of all companies that borrow from domestic and foreign commercial banks operating in Bangladesh. For example, the Federal Reserve System requires the largest banks in the US to report their entire portfolio of corporate and retail loan holdings every quarter (above a certain loan size threshold). These reports include details on each individual loan disbursed by a given bank, along with the detailed income statement and balance sheet information of the borrower. This allows regulators and researchers to dig deep into corporate debt capacity and default probability. Furthermore, requiring borrowers and lenders to produce more granular information will generate transparency for all stakeholders in the banking system.

At the heart of it all, policymakers must be willing to adopt change and accept the fact that playing by a business-as-usual attitude will no longer work. Reforming the banking sector is long overdue, and regulators must act now before a full-blown crisis hits the economy and ordinary people end up paying the price again.

How Macron's visit can strengthen Bangladesh-France ties



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MD SHARIFUL ISLAM

French President Emmanuel Macron is visiting Bangladesh today, which is a milestone for Bangladesh-France bilateral relations. Previously, French President Francois Mitterrand visited the country in February 1990, and Bangladesh Prime Minister Sheikh Hasina went to France multiple times, including in 1999, 2017 and 2021, to strengthen Dhaka-Paris ties. In 2021, the two countries signed a letter of intent on defence cooperation, and according to a statement issued by the French president's office, both nations agreed to strengthen dialogue and continue their cooperation.

This upcoming visit is significant for several reasons. Primarily, it will provide a great opportunity to steer relations into a new direction, as the impacts of better ties matter to millions of people of the two countries. To achieve this, both countries can map out new areas of cooperation, with one possible priority area being the blue economy. Bangladesh collaborated with the

European Union in a technical project titled EU-BGD Joint Collaboration on Blue Economy, which ran from August 2016 to July 2018. It is argued that the blue economy cannot be developed, even partially, without cooperation, collaboration and mutual trust among neighbours (Sakhua and Banerjee, 2020, Pg 127). Therefore, the visit can be utilised to promote cooperation in this area.

According to a press release of the French embassy in Dhaka, Bangladesh is seen as an important partner of France in addressing global issues such as climate change. For instance, Bangladesh played a leading role in the Paris Climate Accords. The Dhaka-Paris cooperation on climate change issues needs to be boosted for the millions of climate-vulnerable people in the world, including the people in Bangladesh.

The press release adds, "In Bangladesh, the President of the French Republic will continue to implement France's strategy in the Indo-Pacific

region..." We know that major powers are focusing on the region due to its growing relevance, and Bangladesh has become a key player. The upcoming visit can be an opportunity to promote cooperation in the Indo-Pacific region – focusing on maritime security issues, deep sea fishing, tackling illegal, unreported and unregulated fishing, and addressing dead zones in the Bay of Bengal.

Apart from all this, the visit can help improve bilateral trade and commerce. The history of trading and commercial ties between the two countries dates back to the 17th century, when the French maintained good economic relations with Bengal, the latter being the hub of regional trade and commerce. The volume of bilateral trade in 2021 amounted to \$3.3 billion, with a massive trade surplus in favour of Bangladesh. France is the fifth largest importer of Bangladeshi goods worldwide, and third within the EU. However, there are scopes for further promoting the economic ties.

Another important area of interest is cooperation in migration. According to the International Organization of Migration (IOM), 12,878 Bangladeshi migrants – 6,296 men and 6,582 women – were recorded in France in 2021. This number can go even higher. According to a report in *The New York Times*, nearly 400,000 jobs are vacant in construction, transportation, nursing and agriculture sectors in

France. Thus, exporting manpower to France can be an area of discussion during Macron's visit.

While in discussion, Bangladesh can even ask France's help to resolve the Rohingya crisis. The former has been hosting more than a million Rohingya refugees, and prolonging the repatriation process will complicate the crisis further.

We also need to consider people-to-people contact for promoting Bangladesh-France relations. Under the leadership of renowned French thinker and philosopher André Malraux, the people of France came forward to mobilise international opinion in favour of Bangladesh during the Liberation War in 1971. Taking historical ties into account, we need to boost the flow of knowledge and culture. For instance, the volume of scholarship for Bangladeshi students at French universities needs to increase.

Finally, both Bangladesh and France share similar values at the global forum. Therefore, both can strengthen their global partnership to promote the greater cause of humanity. Due to the impacts of the Russian-Ukraine war and Covid-19, people around the world are suffering. Against such a backdrop, a humane world order based on the well-being of people needs to be promoted, and to do this, both Bangladesh and France can play a leading role by joining hands.