



VISUAL: ANWAR SOHEL

Bangladesh's path to principled governance



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The 2024 uprising and the regime's exit were dramatic. While the country has seen other uprisings in 1952, 1969, and 1990, each unique in its own way, the current situation is still evolving. It is too early to determine what lessons can or can't be learned from similar uprisings in Tunisia, Egypt, and Sudan. The question isn't just about drawing inspiration from these examples but understanding what will work in Bangladesh and why. Many ideas abound, but which ones will work in Bangladesh?

Diagnosing the problem

There is a deep and growing disconnect between the elites and the vast majority of Bangladeshis—a gap that has widened over the decades. But this divide isn't just economic or cultural; it's moral. The moral fabric of the nation has been ruptured, with integrity taking a backseat to self-interest and corruption.

This disconnect is perhaps best captured by the metaphor of the "sheeter pakhee"—a term often used to describe expatriates, who return to Bangladesh when it's convenient, much like snowbirds who migrate to warmer climates during winter. To those who live through the harsh realities year-round, western expatriates are seen as outsiders who swoop in and out, offering opinions and solutions without truly understanding the day-to-day struggles of the common people.

The "sheeter pakhee" metaphor also reflects the behaviour of many elites within Bangladesh who, much like the rich family in the film *Parasite*, have detached themselves from the realities of the common people, living in a bubble of privilege. These elites have often acted as parasites, thriving off the resources and labour of the masses while contributing little to the well-being of the broader society.

Many Bangladeshi elites have funnelled billions of hard earned foreign currencies—earned primarily from the remittance of expatriate labourers and the sweat of ready-made garment workers—into securing their "second home" in a foreign land, whether it be in Dubai, the United States, Canada, or elsewhere. This parasitic relationship has only exacerbated the divide, creating a system where the few prosper at the expense of the many.

Ahmed Sofa, a revered Bangladeshi writer, highlighted this disconnect years ago, noting how the urban elites, who wield significant power, have become increasingly detached from the realities of the common people. These elites are more foreign in Bangladesh than foreigners or expats. This detachment has only grown as technology and social media have made the lifestyles of the elite more visible, amplifying the sense of injustice and inequality.

Over the years, this divide has become more pronounced. The elites have funnelled their looted wealth into securing foreign havens, while the common people have struggled to survive on meagre incomes. This isn't just about money; it's about the erosion of a shared national morality. As my late father often remarked, "The question isn't which elite can be bought, but at what price." This sentiment reflects a broader decline in values where almost anything—and anyone—can be bought.

Reflecting on this decline, it's important to remember where Bangladesh started. In 1976, a book titled *Bangladesh: The Test Case of Development* captured global attention. At that time, many feared Bangladesh wouldn't survive as an independent nation. Yet, after a famine, several military coups, catastrophic floods, and disastrous cyclones, Bangladesh not only survived but has prospered, defying the dire predictions of the 1970s.

So, how did Bangladesh transition from a "test case" to a model of development, ingenuity, and resilience? The answer lies in the collective spirit, adaptability, and resilience of its people—qualities that must now be harnessed to address the moral and institutional crises that threaten to undermine these hard-won gains. This moral decline has seeped into the very core of Bangladesh's institutions, leading to widespread cynicism and a loss of trust in those who are supposed to lead. The disconnect between the elite decision-makers and the common people is not just a symptom; it's a crisis.

Thesis-antithesis-synthesis

Imagine a new Bangladesh by first acknowledging the extent and impact of this disconnect. The prevailing thesis is that the problems stem from autocratic governance, while the emerging antithesis suggests

that democracy will solve all issues. However, democracy isn't a cure-all. Aristotle recognised this dilemma thousands of years ago—democracies can become tools for the elites, oppressive to the common people.

There are broadly two types of democracies: 1) where foundational principles like the rule of law, popular sovereignty, and the separation of powers are upheld; and 2) where these ideals are abused. Bangladesh, despite 12 national elections, falls into the latter category. The 2024 uprising was a manifestation of the people's frustration with a system that served the elites.

Even the first type of democracy is not without its flaws. Take the United States, for example, where basic rights are more or less secured, but the democratic process is heavily influenced by elite interests. Lobbyists wield significant power, and incumbents enjoy an overwhelming advantage, with re-election rates often exceeding 90 percent. This raises questions about how much power truly resides with the people.

What can Bangladesh learn from other recent uprisings? For example, what happened in Tunisia between 2011 and 2024, why the Islamic Brotherhood in Egypt only stayed in power for 300 days after overwhelmingly winning a fair election, and why a massive popular uprising in 2018 in Sudan led to a brutal civil war?

By carefully examining examples of the two types of democracies in other countries and focusing on actionable, context-specific strategies, Bangladesh can synthesise a governance model that works for its people—Boishamma Birodhee Jonogon (BBJ)—a regime that upholds equity, inclusion, and justice while remaining pragmatic in its implementation. This is where the idea of principled pragmatism comes into play. The BBJ model must be rooted in core principles like fairness and justice, but it should also be adaptable. This approach requires flexibility in applying principles to real-world situations, ensuring that interventions are not only ideal in theory but also viable in practice.

Two actionable ideas

With BBJ, it is crucial to question both the thesis of autocracy and the antithesis of democracy, and instead, imagine a synthesis that mirrors President Lincoln's ideal of a government "of the people, by the people, for the people."

Assuming unbridled corruption and a compromised judiciary as two of the most pressing issues, two actionable ideas can be suggested. First, a community protection platform could incorporate the principles of an ombudsman. An independent and empowered Office of Ombudsman can play a pivotal role in curbing corruption. For instance, in Tanzania, the Prevention and Combating of Corruption Bureau has made significant strides in reducing corruption. Similarly, the Philippines' ombudsman has been instrumental in holding public officials accountable, with the office being responsible for the prosecution of several high-profile corruption cases. In Bangladesh, such a platform could not only serve as a watchdog but also actively engage citizens in reporting corrupt practices.

Second, the judiciary in Bangladesh must be strengthened to ensure its independence, transparency, and accountability. The judiciary needs to be independent from and accountable to the other branches of government. For example, in South Africa, the Constitutional Court has played a crucial role in safeguarding democracy by making landmark decisions that uphold the constitution, even against the wishes of powerful political figures. In Bangladesh, judicial reforms may focus on: a) introducing a more transparent and merit-based judicial appointment process, similar to the Senate confirmation process in the US; b) developing mechanisms for greater transparency in judicial proceedings, such as publishing court decisions, detailed opinions including majority, and dissenting opinions; and c) providing a clear mandate to the judiciary to prevent it from being co-opted by political parties.

In designing and implementing these reforms, the BBJ needs to recognise that any reform will require creative thinking and the fallibility to admit that many initial interventions may not work as anticipated. This means being flexible to adapt to changing circumstances and learning by doing to continuously improve processes and mechanism that serve the interests of all citizens. I invite all to suggest actionable ideas, using real-world examples, on how best to initiate a systemic reform in Bangladesh with trackable and measurable impacts. With collective input and wisdom, at this opportune time, it is possible to create a BBJ Manifesto of governance that is neither autocratic nor democratic but a synthesis of both. Such a synthesis must focus on crafting and safeguarding institutions that are independent, principled, and pragmatic.

Banking sector issues that the new governor should address



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The economy of Bangladesh is heavily dependent on the banking sector as 86 percent of financial intermediation is conducted through banks. But this reliance has led to many problems for the economy in general and the banking sector in particular. Commercial banks typically provide small and short-term loans to a wide range of borrowers. By offering small loans to many borrowers, banks can build a well diversified portfolio, which is crucial for minimising risk. A short-term loan with high turnover rate can be issued multiple times a year, increasing profit. However, instead of granting small loans, our banks tend to prioritise large loans, which they are able to do within the legal framework.

A large loan is defined as one that constitutes at least 10 percent of a bank's capital. A bank can sanction a loan of up to 25 percent of its capital to finance power sector projects. Within this framework, just four such borrowers could take up all of the bank's capital. If these borrowers default, the bank would become insolvent.

A bank can grant a borrower 15 percent of its capital as funded loans, which require immediate disbursement, and 20 percent as non-funded loans, which require delayed disbursement. As such, a borrower can get a loan of up to 35 percent of the bank's capital. In such a scenario, only three borrowers can deplete the bank's entire capital. In case of export financing, a borrower can receive a loan of up to 50 percent of the bank's capital, with the funded exposure not exceeding 15 percent of the bank's capital. In this case, only two borrowers could consume the bank's capital. When banks issue large loans, they fail to build a diversified investment portfolio, leading to an imbalance between risk and return.

The availability of large loans hinders the growth of our stock market. Banks are involved in indirect finance, where they collect funds from depositors and lend them to borrowers. Borrowing from banks is easier because borrowers are accountable to banks, not to the depositors. In contrast, stock markets are involved in direct finance where borrowers have to obtain funds directly from the suppliers of capital. Here, borrowing firms have to win over suppliers of funds through their performance, ultimately reflected in their share prices. In an efficient market, it is very difficult for less creditworthy borrowers to raise funds. However, due to our banking sector being plagued by ill governance, less creditworthy borrowers—with political connections—can easily convince banks to grant loans.

When banks provide long-term loans from their short-term deposits, it imposes major risks on their depositors. Granting large loans goes against the basic principle of bank lending, as it creates maturity mismatch wherein depositors' claims to the bank mature earlier than banks' claims to borrowers. This can lead to liquidity problems, making it difficult for banks to honour customers' cheques. Large loans are also more likely to default. In contrast, small loans contribute significantly to the economy by reducing income inequality between the rich and the poor, and the default rate for small loans is low. Therefore, every bank

should allocate a certain percentage of its funds for small loans.

Restrictions should be placed on single-borrower exposure and large loans from banks. As a result, large borrowers will turn to the stock market—and policymakers will be more diligent in developing this market from its precarious condition.

Bangladesh Bank (BB) regularly discloses non-performing loans (NPLs)—the latest reported amount is Tk 1,82,295 crore, compared to just Tk 22,481 crore in 2009. However, there is always doubt about the accuracy of its reported NPL figures. A true picture of distressed assets should include not only NPLs but also write-off loans, rescheduled loans, and loans stuck in courts. This would provide a more accurate assessment of the banking sector's asset quality. The NPL rate of 10.11 percent in 2023, as reported by BB, would increase to roughly 30 percent if all distressed assets were considered. In an attempt to reduce the ever-growing NPLs, the central bank has frequently changed loan classification rules, deviating from

needed to be maintained, and a case was required to be filed against the borrower. Later, the unpaid period of an NPL was reduced from five to three years, allowing banks to quickly remove their worst loans from the balance sheet.

If BB wants to reduce NPLs, the nexus between business and politics must be broken so that politically connected individuals cannot intentionally default on loans. Good governance and adequate legal infrastructure—relevant laws, courts and impartial judges—need to be established. Borrowers have to be evaluated properly before loan sanctioning. Rules for loan rescheduling, restructuring and write-off must be strictly enforced.

According to the Basel Accords, banks in Bangladesh need to maintain a minimum capital of 12.5 percent of risk-weighted assets. Some banks consistently face capital deficit. Data shows that the capital shortfall of 10 private and public banks in the country reached Tk 39,655 crore in 2023. The capital base of our banks is also relatively low because of high NPLs and low reinvestment of profits. Bank owners are more interested in taking profits as dividends rather than reinvesting them as retained earnings.

There is also continuous capital flight from rural to urban areas. Data shows that even though rural areas supplied nearly 13 percent of deposits in 2010, they obtained only 8 percent of advances. The supply of deposits by rural people increased to 21 percent in



According to the Basel Accords, banks in Bangladesh need to maintain a minimum capital of 12.5 percent of risk-weighted assets. PHOTO: STAR

international standards. Despite these efforts, the usual growth of NPLs has not been curbed.

When a loan becomes non-performing, BB permits loan rescheduling where a loan is renewed or extended under circumstances that are beyond the control of the borrower. The rescheduling is allowed a maximum of three times, examining the causes for the loan's non-performance. The down payment for rescheduling ranges between 10 and 30 percent of the outstanding loan and the time limit never exceeds three years.

For the past decade, loan rescheduling has been permitted by breaking existing rules. Moreover, in 2015, a loan restructuring facility was provided to 15 large borrowers with loans of Tk 500 crore and above, upon receiving a down payment of only 2 percent of the outstanding loan amount. The loan terms were extended to 10 years.

There are huge political repercussions when NPLs rise. While there is less fuss about write-off loans, a write-off loan represents the worst state of NPLs. The amount of write-off loans stood at Tk 51,560 crore in 2023, up from Tk 15,300 crore in 2009. BB also relaxed the rules for loan write-off. Earlier, to write a loan off, it needed to remain unpaid for five years, a 100-percent provision

of advances—a capital flight of 9 percentage points to urban areas. The misuse of loans by wilful defaulters in urban areas poses a threat to rural depositors. To address this, more opportunities for using loans in rural areas should be created.

The overall expenditure management of banks is still not efficient. Data indicates that the expenditure-income ratio was around 99 percent on average between 1991 and 2000. It declined considerably to 73 percent in 2010 before increasing to 81 percent in 2023. These high ratios may be attributed to high staff salaries, provision for default loans, and high corporate tax rates. The elevated expenditure should be controlled as it is offset mainly against low pay to depositors.

Despite the large number of banks in our country, many people are still outside the banking network. This is a contradiction. The rural poor are less interested in maintaining bank accounts, while the urban poor keep their money in semi-formal and informal repositories. So, should we reduce the number of banks through merger and acquisition? Once the number of banks is reduced, it might be beneficial to increase their branches to spread services to remote areas and take advantage of economies of scale. These decisions should be made prudently.

গণপ্রজাতন্ত্রী বাংলাদেশ সরকার
বিভাগীয় বন কর্মকর্তার কার্যালয়
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পুনঃ ইজারা দরপত্র বিজ্ঞপ্তি

এ মর্মে সকলকে অবগত করা যাচ্ছে যে, নিম্নস্বাক্ষরকারী কর্তৃক নিম্নের ছকের বর্ণনা এবং পুনঃ ইজারা দরপত্র বিজ্ঞপ্তির শর্ত মোতাবেক সীমাহীনকৃত খামে উপস্থিত দরদাতার নিকট হতে দরপত্র আহ্বান করা যাচ্ছে।

বিজ্ঞপ্তি নং ও তারিখ	কাজের নাম	দরপত্রের ছকপত্র বিক্রয়ের স্থান	দরপত্রের ছকপত্র বিক্রয়ের শেষ তারিখ	প্রতিটি ছকপত্রের মূল্য (অফেরতযোগ্য)	ইজারা দরপত্র দাখিলের তারিখ ও সময়	ইজারা দরপত্র দাখিলের স্থান	ইজারা দরপত্র খোলার স্থান তারিখ ও সময়
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