BB governor seeks plans to reform NBFIs

STAR BUSINESS REPORT

Bangladesh Bank Governor Ahsan H Mansur yesterday urged the top brass of non-bank financial institutions (NBFIs) to submit reform plans.

He made the call in a meeting with the managing directors of different NBFIs at the central bank headquarters in Dhaka yesterday. Top officials of Bangladesh Bank were also present.

Some NBFIs are in dire straits due to various reasons, including mismanagement, irregularities in disbursement of loans, and defaulted loans.

The rise in defaulted loans has created a capital crunch in most financial institutions, according to industry insiders.

Against that backdrop, the central bank governor asked the top officials of NBFIs to provide a concrete plan to reform the entire sector. Initiatives will be taken according to those plans, he added.

Meanwhile, leaders of the NBFIs urged the governor to provide various policy-related support to address the crisis.

Bangladesh Bank Executive Director and Spokesperson Husney Ara Shikha said they spoke to the governor about the problems plaguing financial institutions.

Many institutions are in poor condition. Therefore, to advance this sector, they want the kind of policy support that is given to banks, she said.

According to the Bangladesh Bank data, defaulted loans of non-bank financial institutions increased to nearly Tk 23,208 crore at the end of 2023. The amount of disbursed loans in this sector stood at about Tk 73,560 crore, which means about 32 percent of disbursed loans turned sour.

At present, 35 NBFIs are operating in the country. Out of these, three are government-owned, 12 are under domestic-foreign joint ownership and the rest are privately owned.

However, most are in liquidity crises.

The situation is such that some institutions are unable to return money to depositors, according to analysts.

At least 10 of these financial institutions are now in critical condition, they added.

No progress in upgrading six closed sugar mills as prices soar

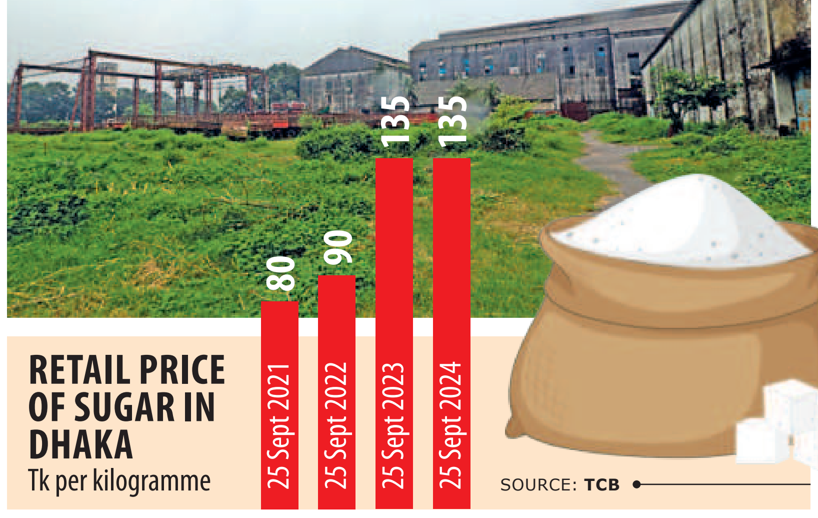
The timeline

- In 2019, a foreign venture signed a Tk **5,000**cr investment deal with Sugar and Food Corp
- On Dec 2, 2020, govt shut six sugar mills
- On July 4, 2024, deal signed with S Alam as foreign agreement stalled
- On allegation of irregularities, interim govt cancelled S Alam agreement

SOURCE: DSFIC

The six mills are:

Pabna Sugar Mills, Shyampur Sugar Mills, Panchagarh Sugar Mills, Setabganj Sugar Mills, Rangpur Sugar Mills and Kushtia Sugar Mills



RETAIL PRICE OF SUGAR IN DHAKA
Tk per kilogramme

SOURCE: TCB

SUGAR PRODUCTION BY THE STATE MILLS

Year	In tonnes
FY20:	82,000
FY21:	48,000
FY22:	25,000
FY23:	21,000
FY24:	30,818

JAGARAN CHAKMA

The fate of six state-owned sugar mills remains uncertain as there has been no upgrading progress since those were closed three and a half years ago, contributing to soaring prices of the sweetener in the local market.

Lately, the interim government cancelled a production resumption deal of the mills with the S Alam Group, citing alleged irregularities. The deal, signed in July this year, involved a feasibility study for boosting local sugar production.

For the reopening of the mills, there is now a 2019-agreement that involves a foreign joint venture.

However, the foreign investors -- Sutech Engineering Co of Thailand, Sharkara International of the UAE and Sojitz Machinery Corporation of Japan -- have had little contact with the Sugar and Food Corporation, according to its secretary Md Anowar Kabir.

"If they are truly interested in investing, they should approach the government now," he said.

In 2019, the Sugar and Food Corporation signed a memorandum of understanding (MoU) with these investors to establish modern, energy-efficient sugarcane, liquor and beer industries in Bangladesh.

In 2020, Thai Sutech conducted a feasibility study and submitted its report. The companies then proposed a Tk 5,000 crore investment under a sovereign guarantee from the Bangladesh government.

However, the government decided to implement the upgrade plan through a government-to-government (G2G) arrangement.

The Japan Bank for International Cooperation and the Exim Bank of Thailand were expected to finance the project.

Meanwhile, the government shut down production at the six mills -- Pabna Sugar Mills, Shyampur Sugar Mills in Rangpur, Panchagarh Sugar Mills, Setabganj Sugar Mills in Dinajpur, Rangpur Sugar Mills, and Kushtia Sugar Mills -- in December 2020.

Therefore, the Ministry of Industries was progressing the plan to upgrade the closed mills with the Thai and Japanese investors, but influential figures within the government were keen to award the contract to the S Alam Group, according to sources at the Sugar and Food Corporation.

Accordingly, a memorandum of understanding (MoU) was signed between the corporation and S Alam in July to conduct a feasibility study. However, the agreement was cancelled due to various irregularities, as per the corporation officials.

Anowar Kabir, secretary to the Sugar and Food Corporation, said Sutech's proposal was highly attractive and could make the closed sugar mills profitable.

Officials said Sutech's proposal was attractive and could make the closed sugar mills profitable, but alleged that the previous government favoured working with the S Alam Group and signed an agreement to that effect

However, corporation officials said the previous government favoured working with the S Alam Group for sugar industry development and signed an agreement to that effect.

Kabir said since the previous government did not finalise the sovereign guarantee issue, the interim government cannot confirm a decision on the matter.

Sovereign guarantees and government-to-government (G2G) arrangements are separate mechanisms for facilitating foreign investment. A sovereign guarantee is a government pledge to guarantee the debt or obligations of a private entity or state-owned enterprise to a foreign investor.

In contrast, a G2G agreement is a direct agreement between two governments for a loan or investment. In this case, the investing country's government provides funds directly to the recipient country's government.

"We are eager to invest. If the government is interested, we can resume the process," Md Emdad Hossain, a local representative of the foreign investors, told The Daily Star.

He added that there was no need to sign a new agreement; a letter from the Sugar and Food Corporation would suffice.

According to Hossain, the investor would introduce high-yield sugarcane in the catchment areas of the mills and implement modern technologies to ensure their commercial viability.

The companies will produce premium quality alcohol used in perfumes and pharmaceuticals, Hossain said, adding that the by-products of the mills would increase their revenue.

He said commercial production would take around 28 months to begin, including sugarcane, cultivation time.

Referring to the Sutech assessment, he said they would be able to produce sugar at Tk 60 per kilogramme (kg), compared to the current price of refined sugar at Tk 140 per kg.

He added that they would be able to produce 8 lakh tonnes of brown sugar per year, while the country's demand exceeds 20 lakh tonnes.

Initially, the foreign companies will reopen three sugar factories with the capacity to process 14,000 tonnes of sugarcane per day.

They will introduce high-quality sugarcanes to make extra-neutral alcohol (ENA) as a by-product for export. This colourless alcohol has a neutral smell and taste and is generally distilled from molasses.

The ENA is the primary raw material for making alcoholic beverages such as whiskey, vodka, gin and Liqueurs.

Personal guarantee against corporate lending: how effective is it?

AF NESARUDDIN

Providing securities and guarantees is very common in corporate lending. Securities are immovable and moveable tangible assets and might be in the forms of pledge, hypothecation or in any other form.

These securities are mortgaged in some cases as well. All these securities are elaborately defined, quantified and well identified.

In addition to these, there are corporate guarantees for comfort of the lenders. In order to bind the borrowers in a stronger manner, personal guarantees are also obtained.

Incidentally, these personal guarantees are vague and not clearly defined. They include all present and future assets and, to some extent, business, social, and personal reputations as well.

It may be summarised that the major securities include immovable assets, debtors, and inventories. Usually, in the case of long-term loans, immovable assets are secured, while for short-term loans and overdrafts, current assets—mainly inventories and book debts—are taken as prime securities.

Even though collaterals and registered mortgages are taken, the process to encash them is lengthy.

However, the provisions of Aurtho Rin Adalat have made these recovery processes easier and simplifier.

In such an environment, what is the fate of personal guarantee (present & future assets) and how effective and forceful is this when it is not defined, quantified and clearly identified and lenders have no control over it.

It can be said without any hesitation that in many cases, the outcome of securing personal guarantee is not helpful.

After the August 5 episodes, it has been observed that many borrowers have huge personal assets in the forms of cash, foreign currencies, investments in shares, land and buildings and so on.

Many of them got the opportunity to transfer it discreetly. Even the governor of central bank has advised against purchasing properties of a defaulted borrower group.

What about others when we look at the broad spectrum. This gives us a clue to review the matter with further insights.

Now the question is what is the way out?

At the time of sanctioning loans, a complete list of the personal assets of the borrower directors, including their family members, as declared, must be recorded with values at market price or notional value where the market price is difficult to determine.

Thereafter, these should be periodically and regularly reported to the lending agencies.

Any disposal therefrom shall be subject to clearance from lending agencies. Similarly, any acquisition has to be recorded as well.

It may be contemplated that like CIB, a database of every borrower individual can be maintained centrally with periodic updates so that all the lending agencies specially banks and NBFIs can have access to it and can easily access the quantum of personal assets of the borrowers.

It is also recommended that any addition to personal assets be reported to help realistically assess the creditworthiness of the borrower, apart from the assets of the borrowing enterprises or industries themselves.

These measures will definitely help in the enforcement of recovery.

Bangladesh is a unique country with lots of special social, political, economic and cultural characteristics.

Business ethics, transparency, and accountability are, in many cases, far from expectations. The level of non-performing loans is significantly higher compared to many neighbouring economies.

Accordingly, we have no option but to address this matter as circumstances demand.

The writer is the senior partner of Hoda Vasi Chowdhury & Co.

No peak oil demand 'on the horizon', phaseout a 'fantasy': Opec

AFP, *Paris*

Opec said Tuesday that phasing out oil was a "fantasy", as the Saudi-led cartel forecast that demand would keep growing until at least 2050, a key year in the battle against climate change.

The oil cartel's prediction runs counter to the assessment of the Paris-based International Energy Agency, which sees demand for fossil fuels peaking this decade as the world turns to renewable energy and electric cars.

In the group's annual World Oil Outlook (WOO), Opec Secretary General Haitham Al Ghais said oil and gas make up well over half of the energy mix today "and are expected to do the same in 2050".

"What the Outlook underscores is that the fantasy of phasing out oil and gas bears no relation to fact," Ghais said in the report's foreword.

"A realistic view of demand growth expectations necessitate adequate investments in oil and gas, today, tomorrow, and for many decades into the future," he added.

Demand for oil alone is expected to reach 120.1 million barrels per day (bpd) by 2050, up 17.5 percent from 102.2 million bpd in 2023, the report said.

OPEC also raised its forecast for 2045 to 118.9 million bpd, compared to 116 million bpd in last year's WOO, which did not look at 2050.

"There is no peak oil demand on the horizon," Ghais said.

At the UN COP28 climate summit last year -- hosted by Opec member United Arab Emirates -- nations agreed on the goal of "transitioning away from fossil fuels" in order to achieve net zero emissions by 2050.

READ MORE ON B2

Leftist Sri Lanka leader stuck with painful IMF deal: analysts

AFP, *Colombo*

Sri Lanka's new leftist leader has little room to renegotiate an IMF bailout that threw a lifeline to his bankrupt country but imposed punishing and unpopular austerity measures, analysts say.

Anura Kumara Dissanayake, 55, was a vocal critic of global lenders from the fringes of the island nation's politics, including in the aftermath of Sri Lanka's unprecedented economic meltdown two years ago.

He won Saturday's presidential vote in a landslide promising to reverse steep tax hikes, raise public servant salaries and renegotiate the International Monetary Fund rescue package secured by his predecessor.

But after his inauguration two days later he appealed for international support to revive Sri Lanka's economy, admitting he had no magic solution to its woes.

"There are certain red lines that the IMF will not agree to negotiate," Murtaza Jafferjee of the Colombo-based economic think tank Advocata told AFP.

He said the Washington-based lender of last resort would be very unlikely to budge on core components of its $2.9 billion bailout, including a ban on printing money and revenue and spending targets agreed by the last administration.

Dissanayake's party, the People's Liberation Front (JVP), sports the hammer and sickle motif of the international communist movement on its logo.

The JVP was confined to the political wilderness for decades after leading rebellions in the 1970s and 1980s that left more than 80,000 people dead, before the party renounced violence.

People walk through the Colombo Port City Marina Park in the Sri Lankan capital. The IMF is unlikely to budge on core components of its $2.9 billion bailout, including a ban on printing money.

PHOTO: AFP/FILE

Months of food, fuel and medicine shortages that accompanied the 2022 financial crisis and foreign debt default rallied the public behind it.

Dissanayake's call to upend the island's "corrupt" politics resonated with a public infuriated by chronic economic mismanagement and graft scandals in government ranks.

As the size of his victory became clear, his party moved quickly to assure markets and creditors that it would adhere to the broad strokes of the bailout deal.

"We will not tear up the IMF programme," JVP politburo member Bimal Ratnayake said. "It is a binding document, but there is a provision to renegotiate."

The ironic outcome of the pledge was that the same day as an avowed Marxist assumed the presidency, Colombo's stock exchange rallied by 1.5 percent.

But by committing to maintain the rescue plan, Jafferjee said that any tweaks pushed by Dissanayake would necessarily be minor.

"On the fiscal side, there is not much adjustment that can be done," he said.

Dissanayake's predecessor, Ranil Wickremesinghe, was voted out of office after doubling income taxes and imposing other reviled austerity measures.

His policies ended the shortages as well as runaway inflation and returned the country to growth but left millions struggling to make ends meet.

The IMF said Wickremesinghe's administration had made a great deal of progress in repairing the nation's ruined finances after a $46 billion foreign debt default two years ago.

But spokesperson Julie Kozack also warned ahead of the presidential poll that Sri Lanka was "not out of the woods yet".

One of Dissanayake's first acts of business will be to secure a parliamentary endorsement for a debt restructuring deal with international bondholders, negotiated by his predecessor at the eleventh hour and announced last week.

That will have to wait for the election of a new parliament, as Dissanayake sought to capitalise on his landslide win by calling snap polls on Tuesday, the day after he was sworn in.

Umesh Moramudali, an economics lecturer at the University of Colombo, warned that failing to secure the deal's passage could open Sri Lanka to legal action from its creditors.

"It would be in the best interest of the country to avoid litigation with bondholders," he told AFP.