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Star BUSINESS

Stock market indexes fell sharply yesterday, primarily for Islami Bank Bangladesh, as investors were reluctant to pour fresh funds

Story on B4

Banks mostly gave loans to their owners rather than creditworthy borrowers

World Bank's senior official speaks on lending culture in Bangladesh

OBSERVATIONS

- Implementation of flexible exchange rate earlier could have warded off liquidity crisis
- Bangladesh missed out on attracting FDIs and creating new jobs
- The country's banking sector should have more transparency
- Capital should be taken out from unsuccessful ventures and redirected
- Some of Bangladesh's tax policies have company-specific exemptions
- Inflation will decrease as the supply chain recovers from Jul-Aug disruptions

> People here are ready to invest, to be busy and to try and improve their livelihoods. This could have led to more growth if they had access to credit.
>
> **MARTIN RAISER**
> World Bank vice president for South Asia

REJAUL KARIM BYRON *and* SOHEL PARVEZ

Bangladesh's banking sector was not well-managed in recent years. Banks mostly gave loans to their owners, rather than to creditworthy entities. Consequently, several banks are now in difficulty.

Besides, the previous administration could not effectively manage the exchange rate. It acted opposite to conventional economic wisdom.

They opted to defend a fixed exchange rate, even though the Reserve Bank of India (RBI) allowed the Indian rupee to depreciate to ensure that its competitiveness was not negatively affected.

"This caused losses of a lot of reserves. As a result, liquidity was getting tighter," said Martin Raiser, the World Bank (WB) vice president for South Asia region.

"If Bangladesh had instituted this kind of policy five-six years ago, it would not have faced the kind of liquidity shortages that the economy experienced."

In an interview with The Daily Star at the end of last week in Dhaka, he said the Bangladesh Bank is currently addressing these issues.

"I think they are doing a good job, but clearly, the financial sector needs to be one of the focuses of reform efforts now to create stronger banks and ultimately to provide more credit to SMEs [small and medium-sized enterprises]," he said.

Raiser, who visited Dhaka in the second half of the last month, also spoke about Bangladesh's economic performance, the reasons for persistent inflation, implications of low revenue collection, and necessary reforms to salvage the ailing banking sector.

The WB official also responded to questions regarding the overall support that the Washington-based agency is considering in response to a request from the interim government, which was sworn in after a mass uprising ousted the Sheikh Hasina-led government on August 5.

Raiser said Bangladesh has indeed done very well, not just recently. Its transformation has been remarkable since independence.

"We have always regarded Bangladesh as a success story."

He said in recent years, the Covid-19 crisis has adversely affected all countries and also had an impact on Bangladesh.

The country could not recover fully due to the slowdown in global trade.

Raiser said Bangladesh is getting more developed, so remaining specialised solely in readymade garments is not so sustainable. Because there are limits to the productivity increases that one can get from a single sector.

"Bangladesh has missed the opportunity to diversify the economy, bring in more foreign investment, bring more technologies, and create different kinds of jobs since the global financial crisis."

NEED A LEVEL PLAYING FIELD

Raiser said he visited Bangladesh five to six times and saw the strength of entrepreneurship.

"Lots of people are ready to invest themselves, to be busy and to try and improve their livelihoods, from the rickshaw drivers to, you know, small manufacturing to fashion designers to the gig economy. Now, a lot of dynamism could lead to more growth and more jobs if they had access to credit."

However, the nation is not getting all the benefits in the absence of a level playing field.

"So, those are some areas where Bangladesh didn't do very well in recent years and could have done much better.

"But there, you know that they can benefit. The last administration invested a lot in infrastructure and that got better. Connectivity is better, so there are some positive foundations on which Bangladesh can and should build."

OVERALL FUNDING ENVELOPE TO BE ROUGHLY $3.5 BILLION

Raiser said the interim government requested budget support for the energy sector and banking reforms.

The envelope of fresh money would be about $2.2 billion, including over $1 billion in repurposed loans, overall funding would be roughly $3.5 billion.

The official said the WB and the government have been in discussions on what will be done to support banking, tax reform, better governance, and transparency, to support the energy sector and social assistance.

"Some of these discussions predate the recent changes. Some of them are new."

BANKING SECTOR NEEDS TRANSPARENCY

Raiser said the multilateral lender wants to get more transparency in the banking sector.

He said people who park deposits in banks should know who the beneficiary owners

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Faulty NIDs deprive garment workers of welfare fund benefits

STAR BUSINESS REPORT

Many garment workers have been facing challenges in accessing financial benefits from the Central Fund for the industry because of inaccuracies in their national identity (NID) cards, analysts said yesterday.

The Central Fund for the welfare of garment workers was set up in 2016, with the country's apparel makers contributing 0.03 percent of their export proceeds to the fund each fiscal year.

As per the conditions of the fund, the workers must submit their NIDs to take financial benefits from the fund.

However, at the end of the day, not all workers can access the money as their NID cards are littered with mistakes, speakers said.

They made the comments at a roundtable discussion, titled "Social Protection for RMG Workers in Bangladesh", jointly organised by The Daily Star and the UN Capital Development Fund at The Daily Star Centre in Dhaka.

According to the ministry sources, there is around Tk 1,000 crore in the Central Fund at present.

Md Abdus Samad Al Azad, director of the Central Fund under the Ministry of Labour and Employment, said his ministry plans to remove barriers in fund disbursement by correcting complexities related to Mobile Financial Services (MFS) and finding an alternative to NIDs.

He said faulty NIDs are the biggest factor depriving workers of social protection measures.

Azad added that payments from the Central Fund would gradually be digitised so workers could avail funds easily and without hassle.

Government officials, senior officials from different garment factories, international cooperation bodies, union leaders and officials from different NGOs also participated in the discussion, which was moderated by Tanjim Ferdous, in-charge (NGOs and foreign mission) of The Daily Star.

The Central Fund is one of many social protection measures for garment workers. Other such schemes include the Social Protection Programme for Unemployed Workers by the European Union and Germany, the National Social Insurance Scheme, the Employment Injury Scheme, the Mental Health Initiative for RMG Workers, the Mother and Child Benefit Program, Child Daycare Centers and the Universal Pension Scheme.

Unfortunately, most workers cannot enjoy such benefits as they lack awareness about these facilities. Bureaucratic hassles and complex processes present other major barriers.

While presenting the keynote paper, Shariful Islam Chowdhury, project analyst of UNCDF Bangladesh, said most RMG workers are unaware of such programmes.

He recommended increasing awareness, collaborating with industry associations, integrating factories with the universal pension scheme, and digitising the central fund so workers can benefit from these measures.

Masing Newar, assistant field officer of the World Food Programme, echoed Chowdhury's views.

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Although workers in the garment industry are entitled to many benefits, they often fail to avail them due to a lack of awareness. Many of them cannot even access the central welfare fund due to inaccuracies in their national ID cards. PHOTO: STAR/FILE

Non-banks' default loans hit record high

MD MEHEDI HASAN

Non-bank financial institutions (NBFIs) in the past fiscal year saw their defaulted loans reach a record 33.15 percent of all disbursed loans, according to the central bank, indicating a fragile situation in the sector thanks to widespread loan irregularities and scams.

At the end of June 2024, soured loans at the 35 NBFIs in the country totalled a record of Tk 24,711.28 crore against their total disbursed loans of Tk 74,533.74 crore, according to the latest data from the Bangladesh Bank (BB).

In the past one year till June, bad loans at the finance companies increased by Tk 4,760.11 crore, or 24 percent.

As of June last year, default loans in the sector stood at Tk 19,951.17 crore, central bank data show.

Up until March 2024, bad loans at NBFIs amounted to Tk 23,889 crore.

However, a senior BB official said that the actual amount of bad loans in the sector is much higher than what is reported to the central bank.

The official, requesting anonymity, said some NBFIs' defaulted loans tend to increase after central bank inspections.

According to BB data, of the total Tk 24,711.28 crore NBFI bad loans, Tk 21,033.33 crore has been classified as "bad and loss" -- which means a low chance of recovery.

The figures come at a time when development partners and economists have expressed concerns about vulnerabilities in Bangladesh's financial sector due to rising distressed assets, including non-performing loans, and a lack of corporate governance.

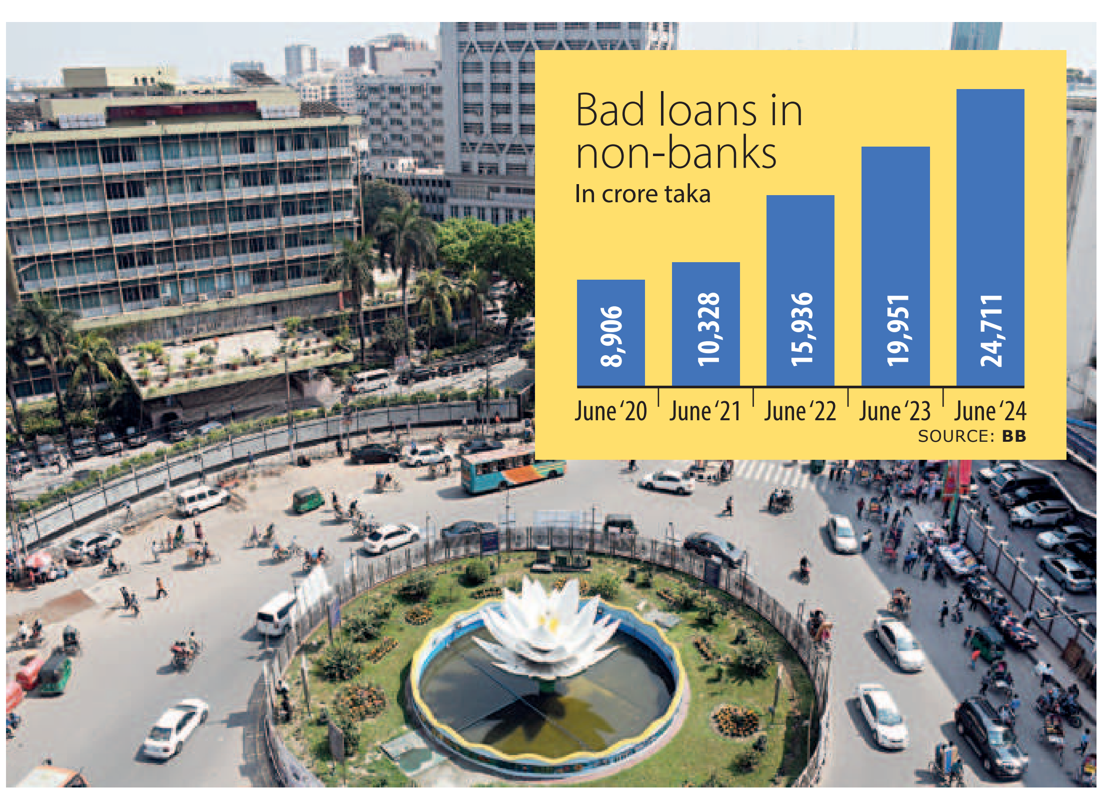
There are two main reasons behind the growing trend of non-performing loans, according to Kanti Kumar Saha, chief executive officer of Alliance Finance.

He said that these toxic assets are "legacy loans" from the large scams and irregularities that dealt a severe blow to the sector a few years ago.

For example, he said PK Halder, former managing director of NRB Global Bank (later renamed Global Islami Bank), swindled at least Tk 3,500 crore from four NBFIs: People's Leasing, International Leasing, FAS Finance and Bangladesh Industrial Finance Company Limited (BIFC), according to BB probe.

As a result, these four NBFIs have become ailing institutions with over 90 percent of their loans going bad, Saha commented.

On the other hand, the July-



August student protests caused business closures and financial difficulties for small and medium enterprises, making loan repayments difficult for them, Saha said.

He added that even some large corporations are facing similar problems.

"Not only the NBFIs, but the overall economy is currently facing multiple challenges, which have contributed to the rise in bad loans within the sector," said Md Golam Sarwar Bhuiyan, chairman of the Bangladesh Leasing and Finance Companies Association.

Industry insiders said that the central bank was largely responsible for the ailing NBFIs.

They said that the central bank's supervision of NBFIs was not up to the mark, as reflected by frequent reports of scams and loan irregularities in the sector over the last few years.

SMART formula scrapped for NBFIs

The Bangladesh Bank yesterday scrapped the SMART (Six month Moving Average Rate

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Govt takes aim at raising non-tax receipts

Introduces annual review policy for fee structures

STAR BUSINESS REPORT

The interim government of Bangladesh yesterday issued a policy with the aim of raising non-tax receipts as revenue mobilisation in the country remains poor.

A circular issued by the finance ministry directed all non-NBR tax receipt collection agencies to submit a report every year on the rates or fees they charge.

The Finance Division will review the reports each October to determine if the rates and fees should be increased, decreased or remain unchanged, according to the circular.

Revenue collection from non-tax sources includes levies for owning land or vehicles as well as stamp duty and surcharges, deductions on dividends, profit and interest payments, and administrative charges.

The move comes at a time when the country's tax collection as a percentage of its gross domestic product (GDP) is among the lowest worldwide, constantly squeezing the government's fiscal space.

Against a target of about Tk 5 lakh crore, the government managed to collect revenue of just Tk 4.08 lakh crore from both tax and non-tax sources in fiscal 2023-24.

Non-tax receipts increased to Tk 47,121 crore that year, up from Tk 46,934 crore previously.

The finance ministry also said they will set rational targets for tax and non-tax collection based on the capacity of the ministries or agencies concerned.

Furthermore, the authorities concerned will update the rates or fees every three years or whenever required, considering changes in the cost of living, services, inflation and so on, it added.