How to rescue banks without creating more risk

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In Bangladesh, 86 percent of financial intermediation occurs through banks. Commercial banks typically provide small and short-term loans to a large number of borrowers. By offering such loans, they build a well-diversified portfolio, which is crucial for risk minimisation. However, instead of small loans, banks in Bangladesh tend to prioritise large loans, which contribute mainly to the creation of non-performing loans (NPLs).

The country's banking sector has been experiencing a crisis for the last two decades due to ever-growing NPLs. According to the Bangladesh Bank, the amount of NPLs stood at Tk 420,335 crore (24.13 percent of total loans) in March 2025, rising from only Tk 22,481 crore in 2009. The amount of total distressed assets now stands at Tk 756,526 crore, about 45 percent of total loans. About 71 percent of these bad loans are concentrated to 10 banks only.

The NPL crisis is the result of massive corruption, fund embezzlement, weak governance, and regulatory laxity which have pushed the economy to a credit crunch—a decline in lending activity owing to a sudden shortage of funds. The economy is experiencing a long period of low growth accompanied by high unemployment. There is also increasing erosion of trust and confidence in the banking sector.

The increase of NPLs primarily affects asset quality and profitability of banks. When a loan (asset of a bank) becomes non-performing, it is classified as sub-standard, doubtful, bad, and a loss, depending on its severity of underperformance. Among them, a sub-standard loan is bad, a doubtful loan is worse, and a bad and loss loan is the worst. With the rise of NPLs, a bank fails to generate the expected income.

According to Basel III, a bank has to maintain 12.5 percent capital of its risk-weighted assets. The implication of risk-based capital requirement is that, the higher the risk-

weighted assets (underperforming assets), the higher the capital requirement. There is a direct relationship between risk-weighted assets and capital requirement. As the risk-weighted assets through NPLs increased abnormally for many years, a number of banks failed to maintain the required capital every year. The latest Financial Stability Report released at the end of 2024 shows that the overall capital adequacy ratio of Bangladesh is only 3.08 percent against the requirement of 12.5 percent, while Pakistan maintains 20.6 percent (end of 2024), Sri Lanka 18.4 percent (end of 2024), and India

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16.7 percent (September 2024). Twenty banks have a collective capital shortfall of Tk 171,789 crore in Bangladesh.

Against the classified loans, banks have to maintain provision from their net income. If a bank fails to maintain the needed provision, it reduces the size of the balance sheet. This gives a negative signal to the market and reduces share prices. As of June 2025, at least 18 banks failed to maintain the needed provision. While the provision shortfall was just Tk 26,585 crore in March 2024, it jumped to Tk 106,131 crore in December 2024 and finally to Tk 170,655 crore in March 2025. The central bank barred these banks from paying dividends, allowing deferment of provisions.

Burdened with massive NPLs, many banks have been facing a serious crisis, failing to carry out their daily operations. Some were rescued by the Bangladesh Bank through liquidity support. But some banks are so severely troubled that the government had to consider a merger. Hence, the finance ministry recently approved a draft proposal to merge EXIM Bank, Social Islami Bank (SIB), First Security Islami Bank (FSIB), Global Islami Bank (GIB), and Union Bank (UB) into a single state-owned entity.

The government undertook donor-backed asset quality review of 18 banks by KPMG and Ernst and Young. In the first phase, they completed the review of six banks in May 2025; the rest are scheduled for review by December 2025. They identified EXIM Bank with an NPL rate of 48.20 percent, SIB with 62.30 percent, FSIB with 96.37 percent, GIB with 95 percent, and UB with 97.80 percent.

A failing bank can be rescued in various ways: merger and acquisition, recapitalisation, bailout, and liquidation. Another rescue mechanism is regulatory intervention with a proactive strategy including recovery and resolution plans ex-ante and powers to intervene when banks face distress ex-post.

Given the quality of assets, it is nearly impossible to merge five banks into one and make it successful. Rather, EXIM and SIB may be merged as they still have a good percentage

of quality assets. Alternatively, each of them can be acquired by some good banks. But we don't have such big private banks that could acquire them. The Islami Bank Bangladesh PLC had the capability to an extent, but it has been destroyed systematically and is still recovering. In contrast, FSIB, GIB and UB should be liquidated; the individual depositors' claims must be settled first in this regard.

The successful rescue of a failing bank depends on some key considerations. Transparency is mandatory in the process. While reviewing asset quality, it has to be valid and reliable. The rescue mechanism should be followed by a strong regulatory framework. The depositors' confidence in the banking system must be retained.

At times, the government has to rescue banks against its will, because some banks are so big that they cannot be allowed to fail. Although the present situation requiring the rescue of several banks emerged purely from non-economic reasons, they need to be salvaged for the sake of financial stability. But it must be remembered that a rescue is often followed by moral hazard problem—when one party has the chance to take advantage of a financial deal, knowing that all the risks will land on another party. If the government bails out the failing bank without giving a serious message, bailouts can create incentives for other banks to assume more risk as they expect to be salvaged from the consequences of the risk.

As a bank does not fail overnight, it must be continuously monitored. Internal compliance has to be followed. The Bangladesh Bank should discharge its responsibility properly. To prevent bank failure, salaries and bonuses of bankers must also be linked to their performances. If bankers can claim higher salaries and bonuses when they perform better, they (salaries and bonuses) must be reduced proportionately when they underperform. Bankers must also keep at least 50 percent of their deposits in their own banks so that they can bear the risk of bank failure.

Still, if a bank fails again, its directors and top executives must be held responsible; the defaulters have to face legal consequences. The failure of all parties that gives birth to large-scale scams leading to bank failure must be considered intensely for due punishment. Before the rescue of a bank is considered, it should be ensured that the causes of failure are purely economic.

Why the Global South should rewrite AI's colonial code

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The American writer and humorist Mark Twain once observed that history doesn't repeat—it rhymes. Today, as artificial intelligence reshapes economies and power structures worldwide, the echoes are unmistakable: the whirring servers training large language models sound unnervingly like the steam engines that once powered cotton gins and rubber plantations. The promise is universal progress, but the patterns feel hauntingly familiar.

When China proposed a World AI Organisation (WAIO) in July 2025—positioned as a UN-like body for "safe, fair, and responsible" AI—it framed itself as a champion of multipolar governance. Yet for those of us from Trinidad to Tanzania, this move evokes older scripts: great powers drafting rules for a technological order that extracts value from our lands, labour, and languages while leaving us dependent on their systems. Consider the brutal arithmetic: while AI could inject $19.9 trillion into the

global economy by 2030, Latin America may receive only three percent of those benefits, and Africa, Oceania, and non-China Asia a mere eight percent combined. This isn't innovation—it's inheritance.

The coffee in your cup, the cocoa in your chocolate—these commodities once fuelled colonial economies through supply chains designed to enrich distant metropoles. Today, we have new raw materials: data. Kenyan workers label images for Silicon Valley algorithms. Venezuelan gig workers scrub toxic content from chatbots. Indian call centres train voice assistants. This labour remains largely invisible, underpaid, and disconnected from the value it creates—a digital encomienda system where sweat trains machines that displace the very people who nourished them.

The infrastructure gap mirrors historical resource monopolies by the colonisers. Africa and Latin America together host just three percent of global AI computing capacity.

Why? Building sovereign compute requires chips, energy, and capital—resources hoarded by powers now racing to lock in dominance. The US AI Action Plan champions open models while tightening semiconductor export controls. China promotes "inclusive infrastructure" while relying on smuggled Western chips to power 91 percent of its AI models. Both offer partnerships, yet neither surrenders control. As Krystal Maughan, a Trinidadian AI researcher, warns: "A lack of vision for oneself results in being part of someone else's vision".

Enter the siren song of "democratisation." Meta's Mark Zuckerberg promotes "open-source AI" while sporting shirts emblazoned "Aut Zuck, Aut Nihil" (Either Zuckerberg or Nothing)—a Caesar-esque declaration of intent. The rhetoric is seductive: Download our models! Build local solutions! Yet Llama's "openness" is a masterclass in illusion. Meta withholds training data, restricts commercial use, and leverages its $40-billion war chest to ensure no startup can rival its scale.

This isn't a partnership, it's predation. By dangling open models while monopolising compute and data, Big Tech turns Global South innovators into outsourced R&D departments. Startups fine-tune Llama for regional needs, only to be acquired or crushed when Meta absorbs their breakthroughs. The result? A new dependency: nations trade sovereignty for the false god of accessibility, importing values baked into foreign algorithms. Consider

the cultural erasure: Swahili chatbots trained on English syntax, agricultural AIs blind to monsoon soil, and facial recognition systems that misidentify black and brown faces. When tools are designed without us, they recreate the world *against* us.

Yet a quiet rebellion is flowering. From Jakarta to Johannesburg, many nations are increasingly rejecting the false binary of US vs China roadmaps and scripting their own code for technological self-determination.

Pakistan's National AI Policy mobilises its youth bulge (64 percent under 30) through education and ethical frameworks, transforming demographic weight into AI leverage. Kenya is building continental research hubs, asserting that African data deserves African governance. Indonesia's public consultation on AI ethics centres on *gotong royong*—collective decision-making rooted in village traditions. The UAE and Saudi Arabia are deploying capital and neutrality to convene Global South summits, shifting the discourse from charity to co-ownership.

These aren't isolated experiments. They're threads in a tapestry of techno-decolonial praxis. We won't win with borrowed code; we win by rebuilding the foundation.

The Global South, therefore, must have a policy that catalyses this momentum. Three pillars can anchor its AI sovereignty—(i) Sovereign compute: Regional compute alliances, like a Latin American cloud network or GCC-funded AI corridors, can pool resources to break dependency. Imagine

Angola and Nigeria co-investing in solar-powered data centres that train models on African health records, guarded by local privacy laws. Data stays, value flows; (ii) AI justice charter: A Global South pact could bind members to ethical non-negotiables like algorithmic bias audits, data dignity clauses, and profit-sharing from extracted resources. Brazil's digital rights framework and India's "AI for All" vision offer templates; (iii) Diplomacy by design: Why beg for seats at G7 tables when we can build our own? A Global South AI Alliance (uniting ASEAN, AU, Mercosur, GCC) should co-draft standards at the UN, demand compute reparations from tech giants, and sanction digital extractivism. Power isn't given; it's negotiated.

Currently, trust in AI sits at 46 percent globally. In the Global South, scepticism runs deeper—we remember promises made by colonial surveyors mapping "empty" lands later filled with mines. Yet this mistrust is wisdom, not weakness. It compels us to ask: Who benefits? Who governs? Whose future?

The WAIO proposal, like Zuckerberg's open-washing, is a symptom of an old order seeking new legitimacy. Our response must be neither rejection nor submission, but re-imagination. Let us build AI that honours Kerala's fishing nets, not just Wall Street's trading algorithms; that learns from Quechua elders and Lagos market women; that sees compute as a commons, not a crumb.

History is rhyming, yes. But poets know: rhymes can be rewritten.