



Rescue workers look for trapped garment workers in the collapsed Rana Plaza building in Savar. Photo: Reuters/File

Establishing accountable institutions

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Three seemingly unrelated major incidents happened in Bangladesh

☒ recently, each having large negative consequences for the economy. These are: the Hall-Mark scandal involving the theft of around Tk 3,600 crore from Sonali Bank; the cancellation of the \$2.9 billion Padma bridge project; and the collapse of the Rana Plaza causing tragic death of more than 1,100 people. The events were seemingly unrelated because they involve different actors in different segments of the economy with no obvious connection with each

other. Yet, they share a common thread in that they are each a striking indication of the poor governance and the lack of accountable institutions in Bangladesh. Collectively, as citizens, we need to think and reflect deeply on these events because if the root factors that caused them are not addressed, the long-term damage to Bangladesh's development prospects can be substantial.

The Hall-Mark scam is a reflection of some serious institutional weaknesses in our banking sector. The ability of a small-time crook to siphon off Tk 3,600 crore from a public bank is a mind-boggling event. It speaks poorly about the institutional quality and accountability of our banking system. The facts that the swindled money still remains untraced and that nothing much seems to have happened to the crooks involved are by themselves worrisome. But more importantly we need to think through the underlying institutional weaknesses and take corrective actions quickly. Unless this is done, the downside risk to the banking sector, including the adverse signal sent to other potential predators, is large.

One major institutional issue is the autonomy of the regulator, the Bangladesh Bank. Two of the important reasons that the Hall-Mark scandal happened is first the lack of internal control mechanisms within Sonali Bank and second as a public bank it is outside the supervision purview of the BB. The two are inter-related. If Sonali Bank was under the supervision of the BB, it is conceivable that the board and management of the bank and internal controls would be stronger. The selection process of the bank management and board would have been done through a stronger scrutiny based on 'fit and proper' criteria rather than based on political connections. A stronger management and board would likely have been more vigilant and responsible. Moreover, supervision reports and follow through by Sonali Bank management would have been more frequent and could have resulted in early detection of the scam. Furthermore, a fully autonomous BB would have likely made wholesale changes to Sonali Bank management and board after the event, ensure that the new management follows through with the recovery of the money, and exerted pressure on the new management to pursue the full legal measures against the criminals.

More generally, the need for a stronger and autonomous central bank cannot be overemphasised. We have seen time and again how the lack of autonomy impinges on the performance of the banking sector and in the conduct of monetary policy. Political interventions in the licensing of new banks, in the matter of directed credits, in the matter of

loan recoveries, in the matter of ensuring prudential norms, in the expansion of total credit and money supply are all evidence that Bangladesh would be better off with an autonomous central bank. The BB would be staffed with top professionals and would be primarily concerned with keeping inflation low and maintaining the stability of the exchange rate, without the fear of taking any or all actions required to pursue these objectives. It would have the freedom to take any or all actions required to maintain the safety and health of the financial system without political intervention. In this environment, the scope for Hall-Mark type scam would be almost nonexistent and even if there is any such aberration, it will be swiftly countered.

The end result of the Padma bridge episode is a lose-lose proposition. Nobody gained but Bangladesh lost. The country lost not only from the withdrawal of the investment and associated financing package, but it also lost face internationally. The Padma bridge episode now features as an example in public discourses by senior World Bank officials concerning how their timely intervention prevented corruption from a major investment project.

Arguably, the Padma bridge is among the most important investment for the country today. Everybody agrees that this is a high-priority investment. It was indeed fortuitous that a package involving an excellent design, fabulous financing terms and an international supervision team involving the lead donors was secured by the government. But when the time came for implementation, the deal fell through owing to allegations of corruption involving senior government officials. While the jury is still out regarding what exactly happened and who has the ultimate responsibility, the fact that government's own anti-corruption accountability bureau (ACC) acknowledged evidence of wrongdoing and filed charge-sheet against a number of senior government officials is indicative of associated problems.

Several lessons emerge from this unfortunate experience. First, if such a high-profile investment involving international donors gets tainted by allegations of corruption, it speaks volumes about the pitfalls in public procurement. Second, a process was agreed by the government and the lead donor agency, the WB, to resolve the dispute. By accepting this process the government demonstrated lot of courage but by failing to take it to its logical conclusion, Bangladesh lost out. This also reflects adversely on the autonomy of the ACC to process high-profile corruption cases.

The Padma bridge episode suggests the need for several institutional reforms. First is the

obvious need to strengthen public procurement. This is an involved process and is easier said than done. Successive governments have failed to come to grips with it. In the interim, the best possible option would be to require that all large donor-funded infrastructure projects should be done on a turn-key basis. This way, procurement responsibility will rest with the concerned donor that is financing the project. The government of course will need to have an oversight responsibility. Second, irrespective of which government is in power there must be an agreed social contract that public servants and ministers found guilty of wrongdoing will be prosecuted to the fullest extent of the law. Citizens have a right to ask this of their government. Third, the ACC has to be strengthened with full autonomy and resources to conduct proper investigations. When the idea of the ACC was born in 2004, it was conceived as such but consecutive governments have found it convenient to keep it as a weak organisation.

The Rana Plaza tragedy is perhaps the most disturbing event from a long-term perspective. The tragic loss of life of so many workers is by itself a major calamity. On top, this event unless deftly managed and mitigating steps are swiftly taken could pose a serious threat to the growth and sustainability of the garment sector that not only provides more than 75 percent of total commodity export earnings but also provides livelihood to an estimated four million workers, which is more than 50 percent of the total employment in manufacturing.

Newspaper reports suggest that there were a number of institutional lapses that led to the tragedy. First, reportedly the owner of the building did not own the land but occupied it through illegal means. As many of us know from other experiences such illegal land grabbing is a common phenomenon in Bangladesh, pointing to the severe institutional problems with the land administration. These include poor record keeping, a lack of computerisation of land ownership and land transactions, land valuation problems, and high transaction costs of land sale, purchase and recordation. Land disputes and associated corruption is a huge problem in Bangladesh. Establishing a sound land market institution is of the highest priority for Bangladesh's future development.

Second, reports also indicate that despite serious problems of construction and occupancy hazards, the owner of Rana Plaza was able to secure the required permits from the concerned government agencies through illegal means. Again, citizens are acutely aware that in the poor governance environment of Bangladesh having building standards and

occupancy rules are no guarantee that they will be observed. Indeed, these rules often become instruments of rent seeking and people find it easier to bypass than comply by paying the staff of the regulatory agencies. This is in fact a good reflection of a huge institutional problem: the absence of accountable local governments. The city corporations and Rajuk have a poor reputation for governance, efficiency and service delivery. The urban nightmare in Dhaka city is an excellent example of weakness of these institutions. The need for establishing accountable city government institutions for resolving the urbanisation challenges cannot be overemphasised.

Finally, the Rana Plaza tragedy also suggests a worrisome gap in an elite private institution — the Bangladesh Garment Manufacturers and Exporters Association. The BGMEA has provided excellent support to the growth of the garment industry through activism in securing concessions from foreign governments regarding lower tariffs and market access. At home, it has successfully lobbied with several governments in securing various concessions on tax and credit front. All this is laudable. But it has not done enough to improve the working environment of the workers.

In a previous article published by The Daily Star headlined “Don’t kill the goose that lays the golden egg” (December 03, 2012), I had written that it was in the self-interest of the garment producers to take precautionary measures to protect the life and health of the workers. I would like to reiterate this message. Waiting for the government to take regulatory actions and for foreign buyers to finance safety improvements might all be helpful, but the BGMEA should not risk further backlash from buying countries’ political forces and should be much more proactive in ensuring that all garment owners take adequate pre-cautionary measures to protect workers. The BGMEA, supported by government policy, may also require all owners to buy worker accident insurance. It can negotiate worker safety related cost-sharing arrangements with large buyers. It should also provide support to small sub-contracting firms who are much more vulnerable in undertaking safety measures. In this regard, it can work with the government to secure subsidised financing for safety improvements in the vulnerable sub-contractor enterprises.