

FOCUS

Policing the Police: The Confidence Crisis and Reforms

MY late grandfather was a man considered progressive for his times. He encouraged his children and grandchildren, male and female, to get an education and, then, choose their careers and spouses as they saw fit. Yet, even my progressive grandfather had his boundaries: he distinctly forbade his children and their children from choosing a career in the police and railway departments or from marrying into a family whose members had worked in those areas of government service. Far from being bigotry, this was simply an expression of the extremely deep mistrust felt by the common citizenry towards certain government agencies. Directed towards the 'protectors' of society, i.e. the police, this lack of confidence is a dangerous element in the national psyche. The amazing thing is, of course, that while everyone agrees that the police department is corrupt to the bone, nobody has done anything about it yet. That is, excepting forming meaningless commissions which author secret reports that are filed in unknown caverns of ugly gray buildings.

A few things are very predictable in Bangladeshi politics. One such thing is the agreement by all opposition politicians and most journalists that the police is a corrupt institution that is little more than a wily tool of the government. This force is used less to protect life and property and more to harass, intimidate, and torture dissidents. The converse argument, of course, is the fact that every regime regularly claims that the police is a professional force that discharges its duties with honour and impartiality. Any given home minister will be happy to show-case even a few 'members' of the ruling party who are arrested for various misdemeanors. So, one has the spectacle of Home Minister Mohammad Nasim defending arduously the same force he vehemently criticised until 1996.

Political hypocrisy is not the

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by Esam Sohail

only by-product of a deformed public security environment in society. In fact, the major victim of this confidence crisis is the economic and political split of the nation. It is no secret that every year, hundreds of major investors shy away from Bangladesh because of the law and order situation. The questionable statistics of the government notwithstanding, it would defy commonsense for a foreign company to invest a fortune in a country where extortionists run amok with the blessings of the ruling elite while the law enforcers turn a blind eye at best. It is not surprising that, as confirmed by the World Bank, foreign direct investment in Bangladesh has fallen by fifty per cent since 1995. This drop has happened in the context of the government continuously liberalising the business climate here.

If the tycoons of powerful European and North American companies do not feel safe in Bangladesh, how can the common man? It is little wonder that often people from all walks of life, from the rickshaw puller to the former Member of Parliament, take the law into their own hands. When the opposition, political or non-political, is convinced that the police is not a protector but a tyrant, it is likely to create its own safety net. Hence, we see ordinary street thugs become respectable as the protection racket for opposition politicians, businessmen, and other 'out-of-favour' elements in society. This situation leads to debates being staged on street corners with guns and petrol-bombs instead of being held in the Parliament buildings. The permanent victim is the nascent democracy in Bangladesh.

This situation cannot last forever. Either this lawlessness will devour society and make it subject to the law of the jungle or society will take a decision to bring the law and order system in line with a modern, democratic polity. Our law and order mechanism, specially the police system, is a product of colonial times and, thus, inconsistent with a free society. Briefly, here are the major concerns about the police service in Bangladesh:

- 1 It is corrupt, prone to bribery and extortion.
- 2 It is not neutral, but only a tool of the regime in power
- 3 It is inefficient, ineffective, and insensitive to public concerns
- 4 It is given to high handed methods including physical abuse, torture, and even killing in custody.

Those concerns are hardly news. They are well known and well articulated by all segments of society (except those in power on a given day). Even Home Minister Mohammad Nasim will agree with them as soon as he is out of office. The bottom-line is that the deformed police service needs to be reformed. And it needs to be reformed right now. Any further delaying tactics, including instituting enquiries and commissions, is only going to aggravate the situation further.

The Home Minister and his successors may want to take note of some of the following themes of reform.

Regulatory Reforms: The police needs to become an independent agency of the Republic supervised not by a partisan Home Ministry but a non-partisan Police Authority at the national level. Such an Authority will be made up of civilians appointed by the prime minister,

home minister, leader of the opposition, speaker of parliament, and the chief justice.

At the same time, the day to day workings of the police must be devolved down to the local level. The metropolitan and upazilla police forces will be supervised by the elected representatives in question: the mayors and the upazilla councilors. This will ensure that people find accountability next door rather than in the Secretariat. Only specialised functions like the detective branch, the CID, the armed police battalion, and forensics need be kept under direct supervision of the national Police Authority.

Recruitment and Retention Reforms: Like most other government departments, the police force is made mostly of men with little formal education. This leads to a situation where the law enforcers are largely ignorant of their role in a democratic society and the rights of the citizens they are supposed to serve. Setting a minimum educational standard, perhaps at the intermediate level, for police recruits will help alleviate this problem.

But recruitment is only half the answer. Retention is the other half. There is an old saying in Bengali, "*Abhabey Shabhab Nashto*" (Want Corrupts Character). We have to pay the men and women in police enough at least to take away some of the incentive for bribery and extortion. While it is impossible to afford wages that are comparable to their counterparts in the West, the Pay Commission can at least peg the salaries in the police department with that of a basket of salaries made in the private sector.

Finally, continuous training

will go a long way in reforming the police. Such training ought to inculcate thoroughly the idea that policemen are servants who exist at the pleasure of the citizenry, at their master. The officers of the force must be taught the concepts, principles, and precepts of basic human rights and civil liberties. These courses should incorporate minimum texts like the Constitution's Basic Freedoms, the Universal Declaration of Human Rights, and the International Covenant on Political and Civil Rights. The police must be brainwashed of the treacherous idea that it is the master of the people. Such a colonial mentality has no place in a free country.

Accountability Reforms: The police, collectively and individually, needs to be accountable to the Republic's citizens. This means more than the force of taking 'departmental action' against corrupt personnel. Someone who has presided over deaths in custody at a jail needs harsher action than posting to a remote district. Same goes for an ex-commissioner who has built, say, a four-storey house in Gulshan with his meagre salary.

The nation's antiquated laws should be changed to make it easier for citizens to sue police personnel for misconduct. Nobody ought to be above the law including the police. Such changes, just by being there, will be a deterrent to police personnel who may want to cross the line between right and wrong.

Additionally, an executive order may be issued to require all police personnel above a certain level to disclose fully the assets held by them and their immediate families. Those who refuse to do so should be retired instantly.

Prosecutorial Reforms: It is undeniable that the police is overburdened and overworked. We often ask the Officer in Charge (OC) of a thana to be patrolman, detective, security guard, jailer, and prosecutor, all at once. That is an inhuman burden. The Republic's decision-makers need to take a studious view of the justice systems in the West and learn a few things. The police should be busy keeping life and property safe from immediate harm. Someone else should take care of investigating and prosecuting the accused.

That 'someone else' is the public prosecutor's office. Indeed we do have these law officers but they are mere appendages of the police bureaucracy. Hence, their role is limited to that of pleaders in courts. This is a waste of talent and opportunity. The public prosecutor's office must be made into an independent judicial entity and prosecutors treated as 'officers of the court' as they actually are. This office, one in each district and metropolitan area, should be responsible for investigating alleged crimes, preparing cases, deciding who to prosecute, and, finally, prosecuting the alleged criminals. This will free up the police to do actual police work and let the court system decide who is guilty or innocent.

The image of the police force in Bangladesh is worse than it was in the times of the British administration. We may want to deny it out of rhetorical patriotism but the fact remains that most people on the street, from every strata of society, believe the police to be the corruptest segment of society. Left unattended, this perception may well create a crisis of confidence that this Republic cannot survive politically, economically, or socially. It is past time to police the police.

The author writes from Kansas, USA.



All health information to keep you up to date

Beware

What's in a cigarette?

Tobacco smoke contains some 4,000 chemicals including these poisons:

TAR: Contains cancer-causing substances: It coats your lungs. A 20-stick-a-day smoker inhales up to a full cup of fat every year.

BUTANE (lighter fuel)

CARBON MONOXIDE: This is the gas that kills you when you breathe in car exhaust fumes. It replaces oxygen in your blood and robs, muscles, brain and body tissue of oxygen. It also makes the lungs less able to clear themselves and over time, airways swell and lets in less air into the lungs.

ARSENIC (found in ant poison)

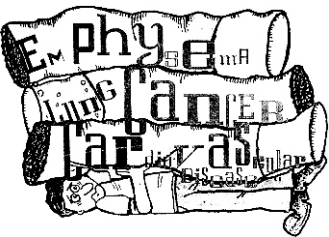
NICOTINE: This is the addictive drug in tobacco. It raises your blood pressure and heart rate each time you smoke. This strains your heart and increases your chance of heart attack.

AMMONIA (found in floor cleaners)

CADMIUM (found in batteries)

NAPHTHALENE (mothballs)

But you know all the hard facts about smoking already. We'll tell it to you anyhow. AND, we challenge you to do something good for YOURSELF-- QUIT!



EMPHYSEMA

-- a disease that slowly destroys the lungs; lungs rot and lung tissue harden

LUNG CANCER

-- caused by tar and nicotine in tobacco smoke

-- most lung cancers cannot be removed with surgery

CARDIOVASCULAR DISEASE

-- nicotine and carbon monoxide causes blood vessels to narrow and clot

-- the heart will be overworked because it has less oxygen and has to work harder to pump blood through narrowed vessels.

Tomorrow: Always children first and other tips.

Factoring: A Facilitative Financial Service

by Prashanta Kumar Banerjee

CREDIT and collections are specialized areas within the broad finance function in modern business. These involve a lot of time and effort of a company. Factoring is a popular mechanism of managing, financing and collecting receivables in Americas, Western and Central Europe, East Asia, and also to an extent, a number of countries of South Asia and Middle East.

What is Factoring? Factoring is a device of transforming a non-productive, inactive asset (i.e. book debts) into a productive asset (viz. cash) by selling book-debts (receivables) to a company that specialises in book-debt collection and administration. The definition given by the US laws is as follows: A continuing arrangement between a factoring concern and the seller of goods or services on open account, pursuant to which the factor performs the following services with respect to the accounts receivable arising from sales of such goods or services:

- 1) purchases all accounts receivable for immediate cash;
- 2) maintains the sales ledgers and performs the other book-keeping duties relating to such accounts receivable;
- 3) collects the accounts receivable;
- 4) assumes the losses, which may arise from any customer's financial inability to pay (credit loss);
- 5) provides further funds on a seasonal and term basis, which are either unsecured or secured;
- 6) assists in advisory services, marketing surveys, management and production counseling, and data processing services.

Types of Factoring: The arrangement between the client and the factor primarily depends upon the needs of the clients. This could be either financing or sales ledger administration or collection of debts or credit risk coverage, etc. or all together. The type of factoring arrangement concluded at a given time depends upon the client's needs, nature and volume of client's business and financial strength, type of business, cost of the services, etc.

Full Service Factoring/Non-Recourse Factoring: This form of factoring is also sometimes known as 'old line' or 'standard factoring'. This is the most comprehensive form of factoring combining the ingredients of almost all the factoring services. It offers finance against book-debts, undertakes sales ledger administration including collection of the debts and assumes the credit risks against bad debts. However, it cannot prudently accept jumbo risks even with respect to customers who are apparently sound. The assumption of credit risks covers only defaults in payment arising from financial inability or insol-

veny of the customer. The defaulted debts resulting from disputed qualitative aspects of goods/services supplied will be reassigned or debited to the client.

Non recourse factoring is most suited to situations where: (a) amount involved per customer is relatively substantial and financial failure can jeopardize the client's business severely; (b) there are a large number of customers of whom the client cannot have personal knowledge; and (c) client prefers to obtain 100 per cent cover under factoring rather than take insurance policy. This type of factoring is quite popular in most of the developed countries in the world including USA and UK. The share of the 'non recourse factoring' in the total world domestic factoring under FCI is 54.35 per cent.

Recourse Factoring: In this method of factoring, the factor provides all types of factoring services except assumption of credit risk of the debts. The client has no indemnity against uncollected debts. If the customer of factor's client makes default in payment of the debt on maturity for any reason, the factor is entitled to recover from the client the amount advanced against such debts. This type of factoring is preferred when customers are spread wide and relatively low amount per customer is involved or when the client is selling the high-risk customer. Maximum countries, particularly developing countries, practice recourse factoring because it is not easy to obtain credit information, and the cost of bad debt protection is also very high.

Bulk Factoring: Bulk factoring provides finance to the client but no administrative or protection service. However, it includes notification to the customers calling upon them to pay the dues direct to the factor. The arrangement serves the purpose of purely financing the trade credit requirements of the client. The service provided is, therefore, no more than that obtained by means of invoice discounting.

Maturity Factoring: This form of factoring is also sometimes known as 'collection factoring'. Under this arrangement, services provided are purely administrative. The factoring company: 1) monitors and maintains the sales ledgers; 2) issues and dispatches the invoices; 3) collects the debts on due date. Finance is not prepaid by the factor. The factor otherwise pays the factored amount to the client only after the respective debt is collected from the customer at the end of the credit term or on an agreed maturity date which could be different from the actual due date for payment. The main duty of a factor is to make sure that the customers pay debts by the due dates. Collection efficiency can make sure the

recovery before maturity. In such a situation, the factor enjoys the additional float of funds on early collections along with an extra income from factoring services. Maturity factoring could be either with recourse or without recourse. In case of without recourse factoring, factored amount will be paid to the client at the end of the credit term or on the agreed maturity date irrespective of whether the factor has been able to collect the debt or not. If the customer becomes insolvent, payment will be made to the client even before maturity on proof of the customer's insolvency. Clients with sound financial condition and liquidity may prefer maturity factoring.

Agency Factoring: This form of factoring always extends finance against book debts, and sometimes protection against bad debts is available and besides, administration of sales ledger is taken up. The collection of book debts is always undertaken by the client. It usually includes informing the customer to pay directly to the factor. Companies, which have good system of credit administration but need finances, prefer this form of factoring.

Invoice Discounting: Invoice discounting is another impor-

agreement has to spell out the rights and responsibilities of each of the parties.

Post-factoring Agreement: After entering into a factoring agreement, a client entrusts the factor to carry out the credit collection and the sales accounting function in a manner, which will constitute a clear improvement over the pre-factoring situation, and to pay promptly for receivables in accordance with the factoring agreement. A well-established mechanics helps to conduct these functions smoothly.

- 1) The client approaches the branch office of factoring companies directly for preliminary discussion.
- 2) The branch writes to the client's principal bank for confidential opinion.
- 3) Once the client and the factor are convinced about the need for factoring, the factor conducts an in-depth study on the various areas of operation of the client.
- 4) An offer is made to the client, if the facility is approved, after examining of information and assessment of credit.
- 5) An agreement is entered into between the factor and the

up if invoices remain unpaid by due date.

8. Customer pays the factor (i.e. collects book debts).

9. Factor makes the balance payment of the invoice to the client.

10. If, however, the buyer defaults to pay the factor, it would still make the final payment to the seller in case of without recourse factoring.

Costs of Factoring Services: There are two types of costs involved in factoring. These are the interest on advance, if any, given by the factor to the firm and the factoring commission or service fee. Interest rate is charged on the funds outstanding and calculated on a day-to-day basis. It should be equal to or slightly above the interest rate being charged by banks on their cash credit and overdraft facility. Galli (1999) shows that spread should be from 1 per cent to 4 per cent on advanced funds. Singh (1988) advocates that it could be expected to be somewhere between 14 per cent and 15 per cent in India. In Bangladesh, as lending rates both for term lending and working capital are to be decided by the banks them-

About 700 factoring companies of 50 countries offer the factoring services to 80,000 businesses all over the world...It is felt that it will be of great assistance to the entire industrial and trading sectors if factoring services are introduced in Bangladesh

tant service just like financing against invoices without assuming any other responsibility. The factor purchases all or selected invoices of the client. All the other works relating to sales ledger administration and debt collection are looked after by the client himself. The customer is not aware in this case that the client is availing of any factoring facility. In this arrangement, the client is able to tide over his liquidity problems by availing of the advance against invoice without having to commit himself to a regular factoring arrangement.

Mechanics of Factoring After Agreement:

1. Request by seller for credit check on the buyer (customer) whose name and address are furnished to the factor.
2. Factor checks the credit credentials and approves the buyer. For each approved buyer, a credit limit and the period upto which credit can be given are fixed.
3. Clients deliver the goods and/or services on credit and issue invoices with a notice asking to pay to the factor.
4. Seller/client sends the duplicate copies of the invoices to the factor. The invoices are accounted for in the buyer's account in the factor's sales ledger.
5. Factor sends the notice of assignment to the buyer.
6. Factor prepays to the client say 80 per cent to 90 per cent of the invoice value.
7. Factor sends a monthly statement of account and follows

self, factoring organizations can fix the rate based on cost of funds and international scenario.

The factoring commission is paid for credit evaluation and collection and other services and to cover bad debt losses. It is usually expressed as a percentage of the full net face value of receivables factored. Factoring charges solely depend on the utilization of services. Suppose a factoring company offers a full package of all non-funding services including credit screening, collections, write-off, it could charge somewhere between total 1.32 per cent and 2.42 per cent (considering 10 per cent margin with cost of services). Total volume of receivables, the size of individual receivables and the quality of receivables should also be considered in fixing the factoring commission.

Benefits of Factoring: Factoring actually goes a long way to help the borrowers to improve their financial discipline and to serve as a catalyst for expansion and growth of industrial and business units. All the advantages of factoring cannot be shown in a discussion of this kind, because different types of companies require different

credit department; it does not have to incur costs of credit investigation, evaluation and collection and the bad debt losses.

The economic significance of Small and Medium Enterprises (SMEs) in Bangladesh is well rehearsed. However, the long and short story is that financing still remains a perennial problem for them. They suffer from the inadequacy of working capital because of: (a) delayed payment of their receivables (book debts) by large sized firms as well as public sector enterprises and governments; (b) reluctance of banks to extend credit against their receivables; and (c) lack of expertise in financial management, in general and credit management, in particular.

Banks are generally reluctant to finance against book debts of SMEs for the following reasons:

SMEs do not maintain a proper accounting system and therefore banks are unable to verify the accuracy of book debts.

Most SMEs are organized as proprietary or partnership firms and, thus, are not required to have audited accounts. Banks cannot put much reliance on unaudited accounts.

Most SMEs have poor credit

management. They have inadequate and inefficient systems of book debt collection. Thus, the incidence of bad debt losses is high in the case of SMEs sector.

SMEs have tendency of slackening their effort of collecting book debts, once banks have financed their book debts.

Factoring can assist in the credit management of SMEs. Factors can buy their receivables and help them in collection and protect them against bad debts. Factors, with their systematic, specialized and professional debt-collection facilities, can assist SMEs in these areas and ensure improvement in debt collection. In this context, the credit protection services of factors would, particularly, help SMEs as they would ensure payment on a fixed date, as well as provide protection against the customer's default on account of his inability to pay.

Factoring and Bangladesh: Bangladesh is a developing country. Its manufacturing sector is relatively a minor sector. As of now, it accounts for 9-11 per cent of the GDP. Of this, Small and Medium Enterprises (SMEs) play a vital role in the economic development. Its share of the value of the gross output of the entire manufacturing sector is estimated at about 35 per cent. Bangladesh's important challenge is to improve the contribution of whole manufacturing sector to the total GDP (at respectable rates) for fast economic growth. It expects a sizeable industrial sector where manufacturing sector will account for at least 25 per cent of the GDP. In the context of market economy, this sector is trying to be competitive both domestically and globally. In order to achieve the objective of accelerating industrial growth rate, it is necessary to provide all required assistance to the industrial sector in areas such as finance, collection of accounts receivable in due time, coverage against defaults, provision of effective information, overseas trade networks, and promotion of closer understanding between industrial and trading sectors, and the financial sector. In this perspective, factoring could be a supplementary service of the existing financial services provided by banks. It is expected that factoring could prove to be mutually beneficial to both factors and manufacturing sector. On the one hand, manufacturing sector could benefit from the wide range and flexibility of factoring services, on the other hand, factors would be assured of readily available substantial business from the sector. Apart from this, regional economic co-operation has emerged as a major economic arrangement for the global economic integration. Bangladesh has participated as an active

member of SAARC, SAPTA, Colombo plan etc. This has created possibilities for increasing the cross-border trade among the countries of the region through land and sea routes. It will result in bright possibilities of trade on open account terms under factoring service. So, Bangladesh cannot keep herself away from this world wide service.

In this perspective, it is felt that it will be of great assistance to the entire industrial and trading sectors if factoring services are introduced in Bangladesh. Moreover, the introduction of export factoring in Bangladesh would provide an additional window of facility to the exporters. There is, therefore, no need to keep any reservation in introducing both the domestic and international factoring in Bangladesh. It is positive that some financial institutions of Bangladesh are already thinking about the factoring services. However, such a system can only sustain if a conducive environment is created and a professional approach is taken. Bangladesh bank can initiate suitable actions for launching factoring services. For this purpose, an urgent attempt is required to be taken for the following:

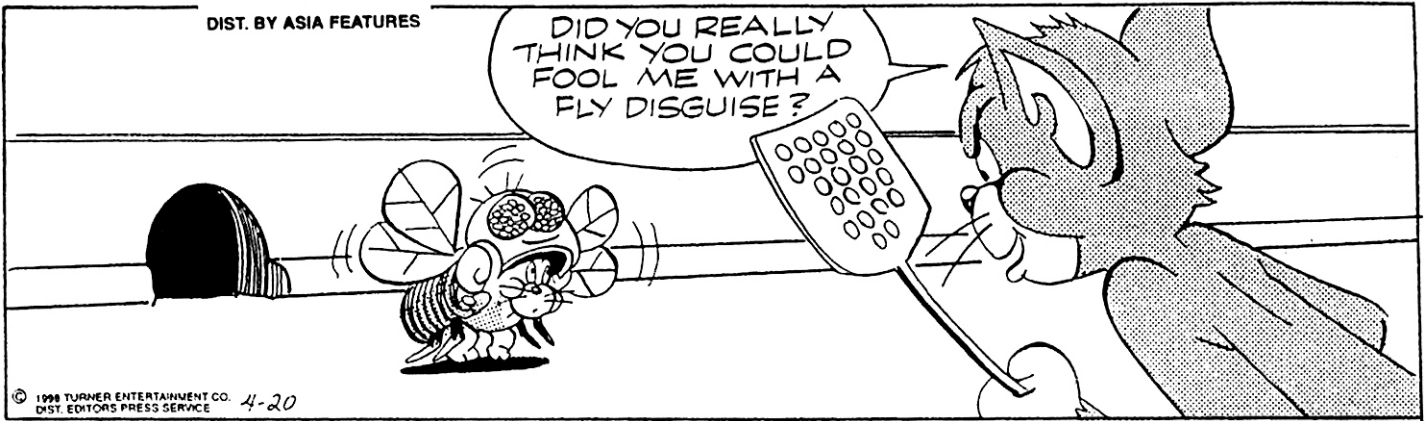
- i) What types of organizations should be encouraged to provide the factoring services?
- ii) What is the legal set up which will facilitate the growth of factoring?
- iii) What sources of funds are available to the factoring organizations? How can investors be motivated to invest in factoring organizations?
- iv) What type of staff will be needed?
- v) Is computerization necessary?
- vi) What type of pricing policy should be applied for factoring services?
- vii) What types of accounting procedures are required for factoring services?
- viii) What types of services should be offered by factoring organizations on the basis of priority?
- ix) What are the appropriate sectors which will receive the factoring services?

The answers to these questions will provide a helpful direction to the government, policy makers, bankers, manufacturers, traders and other authorities who can intimately involve in launching this financial service.

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