

Combating corruption

A. N. M. WAHEEDUZZAMAN

THE recent dialogue on corruption arranged by the Transparency International is a new start towards an old problem. I hope their 'ring the bell' initiative generates more debate in the society and help us find a solution to corruption. Their suggestion to form an Independent Anti-Corruption Commission (IACC) is a good idea. It also received a support from the civic bodies. According to our Law, Justice and Parliamentary Affairs Minister Barrister Maudud Ahmed, the government is considering it to fight corruption. However, the idea needs to be evaluated in view of our administrative, legal, social, political, and cultural environment. Here are a few points to consider. Apparently, IACC is expected to perform the same or similar functions that the Bureau of Anti-Corruption is currently pursuing. The only notable difference is that it would be an organization mandated by the constitution. The elite commission is also expected to be independent in its delivery. However, without proper attention to the root causes of corruption IACC can only offer a symptomatic treatment. The rule of law and the level of inequality and morality existing in the country need to be addressed simultaneously as we combat

Affecting corruption is a long-term project. It requires a legal system that is fair, transparent, and able to deliver justice. It warrants a social system that presupposes equality. It expects moral training from family and education system. The individual, the family and the society must come together to combat corruption.

corruption from the policy making top. Establishment of a rule of law with transparency and openness in a society is a precondition to removing corruption (see the World Bank study by Kaufmann for detailed arguments). The rule of law in the country is tampered by the corrupt practices of our administration, law enforcement agencies, and the court system. Corruption limits our ability to deliver justice. It favours the rich and the party/people in power. I do not recall of any corruption case against any sitting minister/MP or party in power. It simply does not work that way in our culture. I am not sure how IACC can change this. To make IACC effective our administration must be able to locate, isolate and intervene corruption first. Their success comes before the success of IACC. Theoretically, we can establish an open system by taking a systems approach in administration and following the guidelines of the World Bank or the European Union. There

is good literature available on 'how to make a government transparent.' It is not only openness but also accountability that matter. We have a bureaucracy whose file flows and noting system makes it difficult to hold someone accountable to a decision. I am not sure how IACC can identify the wrongdoers in an evasive system like this. Additionally, the commission may not be able to rise above the existing corrupt culture, making its decisions questionable. There is another dimension to this issue. Usually, people who are corrupt are also powerful. Many governments of the third world countries in Asia, Africa, and Latin America demonstrate this. Bangladesh is no exception. The powerful made their fortune through corruption. The system benefits them. They will resist any change that affect the status quo. Will IACC be able to contain the power groups? I seriously doubt. Who will be backing IACC in their endeavours? The power lies on the other camp.

There is an economic dimension of corruption to consider. It is about income and inequality. Countries that are equal exhibit less corruption. For example, Austria, Japan, and Finland have an inequality ratio (income of top 20% over bottom 20%) close to 3 and corruption index close to 9 (10 being the lowest). These countries are very flat with respect to income; they just have a very large middle class. On the contrary, Brazil, the most unequal country in the world, has an inequality ratio of 25 with a corruption index of 4. Being the most corrupt Bangladesh scores 5 on inequality ratio. The European countries have reduced corruption and achieved equality through their tax system, social entitlement programmes, and distributive justice. Some newly industrialized countries like Taiwan, Korea and Singapore also show some success in this regard. Unfortunately, we have a tax-regime that does not work. People evade taxes in large percentages and the government fails to catch

them. Without proper tax-regime and distributive justice we may not be able to root-out corruption. Lack of a decent income (an outcome of distributive justice) and inequality will haunt corruption. I do not see any serious role that IACC can play here. Furthermore, we need to understand the psychology of corruption. The fact is corruption brings economic reward. An individual is likely to engage in corruption as long as he finds the economic reward of corruption greater than the punishment and the probability of its occurrence. The following inequality explains this: Economic Reward > Quantum of Punishment/Probability of Punishment. Punishment works as a deterrent in behaviour. So far, our system has failed to punish the wrongdoers at large. Being a policy body IACC is likely to have limited power to enforce punishment, making it a less effective organization. My last observation would be about individual ethics. Our ethical

training begins in our family. Education system also influences this. Combating corruption is a cultural war against the existing immoral practices of the society. The state has limited role here; it cannot dictate the morals of the society. For that, we need to depend on our family, religion and the school system. We may consider imparting ethical training through our curriculum. Many American universities have incorporated an ethics course in their programme. Moral suasion must continue along with legal enactment. Affecting corruption is a long-term project. It requires a legal system that is fair, transparent, and able to deliver justice. It warrants a social system that presupposes equality. It expects moral training from family and education system. The individual, the family and the society must come together to combat corruption. IACC alone cannot do it. It may start the process however. Dr. A. N. M. Waheeduzzaman is an Associate Professor of Marketing at Texas A & M University - Corpus Christ, USA.



All health information to keep you up to date

Nutrition news

Both fruits and vegetables are full of minerals, vitamins and other nutrients. They are excellent sources of fibre and roughage which make the intestines move better. The only drawback of vegetables is that most of them cannot be eaten raw. The process of heating and cooking destroys many vitamins. However, nothing can be done about that. Do not cook vegetables for a long time. Minimum cooking is best. Fruits are the winners. All fruits can be eaten in their natural form. If you can afford it, go for fruits, as they are full of vitamins, minerals and glucose. Whole fruits are better than juice. ***** When tired and weary on returning home from one's place of work, the first thing that is done, is to eat anything available at the moment. This usually is high calorie food like cakes, pastries, wafers, peanuts etc. Eating in between regular meal times causes a decrease in the appetite for the next meal and also an increase in the intake of calories. There is an easy way out of this. When very hungry, dampen your hunger with liquids like fruit juices, lime water, aerated water, milk etc. They are not only refreshing but they also kill hunger. This allows one to do proper justice to the next meal.

Next: Your medicine information.

What really happened at Enron

SOHEL KASEM

WHEN US energy tycoon Enron Corp. filed for bankruptcy in early December 2001, and admitted to hiding billions of dollars in mysterious off-balance sheet entities, it sparked off the biggest financial scandal in recent history. The stakes are mind boggling -- a \$50 billion bankruptcy, \$32 billion lost in market capitalization, and employee retirement accounts drained off more than \$1 billion. Add to this further reports of shredded documents, insider trading, huge private profits on sale of the company's shares, large campaign contributions and the suicide last week of Enron's former Vice Chairman, and it is easy to see why Enron has become the hottest news story right now in the business world. Eight congressional committees are now investigating the role of the company and of its auditors, but the full story may take months or even years to unravel, after the committees and courts are finished. The collapse of Enron The man behind the spectacular rise (and fall) of Enron was its longtime chairman and founder Kenneth (Ken) Lay. The son of a Baptist preacher and some time tractor salesman Ken Lay grew up in a very austere and financially strapped family. Lay got his doctorate in economics from the University of Houston and at the time of the deregulation of energy during the Reagan Administration was already an energy company executive. He organised the merger between two gas pipeline companies-- Houston Natural Gas (HNG) and Nebraska based inter-North to form Enron. However Enron was interested more in trading than in shipping and moving gas -- from broadband cable to water. Lay also built up strong personal relationships with the government, particularly the Republicans and to a lesser extent

the Democrats. Huge amounts were paid as campaign contributions. Enron and its executives contributed almost \$5.8 million as political contributions since 1989. The bulk of it, 73 per cent, went to Republicans. Lay built up close personal relationships with both Presidents Bush (Sr) and Bush (Jr) and managed to be involved in key energy legislation. Towards the end, Enron's activities resembled those of Goldman Sachs more than as an energy provider. Bonds and sureties and shares were the name of the

as Special Purpose Entities (SPEs). Normally once a company owns 50 per cent or more of another company, it must consolidate the latter under the current rules. The controversial exception is where outsiders need to invest only 3 per cent of an SPE's capital to be independent and avoid consolidation in the holding company's books. While some companies maintain that SPEs benefit investors because they enable management to tap extra sources of earnings and hedge trading risks, others feel that the investors and the general public

University, calculates that in the past half dozen years investors have lost close to \$200 billion in earnings restatements and lost market cap due to accounting failures. And the trend seems to be increasing. A recent report traces the delicate machinery that was used by Enron's accountants. There appears to have been, at least for a time, a tortured interpretation of accounting rules that could be used to justify the hiding of \$1 billion in losses. Over 15 months, from the beginning of the third quarter of 2000 through the

and consulting services to Enron, having ex-Andersen people, including the chief accounting officer, as top Enron executives, overlooking improper accounting practices, failing to warn the public in time, shredding valuable documents and in general not doing their job properly. It is ironic that while the "crime" was committed by Enron accountants, lawyers and bankers, Andersens (as auditors) seem to be getting all of the blame. Some of the above allegations are common to other firms as well. For years all the

with itself and warned that the company "might implode in a wave of accounting scandals." Sadly, her warnings were not taken very seriously by Enron. As Watkins herself wrote, if Enron collapses, "the business world will consider the past successes as nothing but an elaborate accounting hoax." How chillingly prophetic her words have been. What could be more damaging to Andersens, however, is the shredding of important documents and thousands of e-mail messages reportedly on the instructions of David B. Duncan, the lead partner of the Enron account. Andersens have sacked Duncan on Jan 15, put three Houston partners on leave and relieved four others, including Stephen Goddard, Jr., managing partner of the Houston office of management responsibilities. Andersen CEO Joseph Bernardino is keen to fight back and "take all appropriate steps necessary to maintain confidence in the integrity of our firm." Unlike David Duncan, Ken Lay and other senior officials of Enron who have now refused to testify, Andersens have agreed to do so and the whole business world will be keen to hear what Bernardino and his colleagues have to say. Conclusion The coming weeks and months will be absolutely critical to determine which way the Enron case is going. Already the shock waves are being felt on companies and auditors. The question is, are there more Enrons in the future? A few names have already been mentioned, but regardless of the outcome, it seems clear that major changes are on the cards. The regulators and the investors will almost certainly call for tougher laws and accounting practices to ensure that the Enron debacle does not repeat itself. Soheli Kasem is a practising chartered accountant.

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game and Enron had become primarily a trading firm. And therein lay the problem. As share prices plummeted due to the recession and the events after September 11, Enron had few hard assets to protect itself when the crash came and hidden debts became due. The major failures at Enron seem to revolve around three issues: 1. Hiding of debts in off-balance sheet entities 2. Restatements of balance sheets and income statements 3. Role of the auditors How companies hide debts Modern day financial statements are a complex jungle of accounting mumbo jumbo to the average investor and even to many accountants. Outsiders regard this as a secretive world of accountants, lawyers, CEOs, bankers and financial analysts who use a variety of techniques -- many of which are morally questionable but legally correct, brought on by the pressure to produce major growth in earnings. One such dubious practice is the creation of a legal structure known

have no idea of the extent of the real liabilities. As a result, many loan guarantees and hidden debts never show up on the parent company's balance sheet. Many SPEs incorporate triggers requiring the parent company to repay loans or give them new securities if the stock falls below a certain level or credit rating agencies downgrade its debt. And it was just this sort of triggers that signaled the end of Enron and sent them on a death spiral. Restatements of balance sheets and income The Enron affair has also highlighted a number of other accounting issues. It's getting harder and harder to know what a company's earnings actually are and what is the value of their shares. Unbelievable as it may sound, no less than 723 companies in the US have been forced to restate and lower their earnings since 1997. The Enron case is only the latest in a long line of accounting meltdowns from Waste Management to Cendant to K-Mart. Lynn E. Turner, former chief accountant for the SEC and now a professor of Colorado State

third quarter of 2001, Enron reported pretax profits of \$1.5 billion. Had Enron not used the off balance sheet enterprises, the figure would probably have been 72 percent lower: \$429 million. The accounting rationale was that the risks of some truly bad investments had been transferred from Enron to these entities, which were created in conjunction with partnerships run by Andrew S. Fastow, then Enron's chief financial officer. In fact, as the report makes clear, there was no real transfer of risk, and Enron eventually had to shoulder the losses. But there was a large transfer of wealth to the Fastow partnerships, which were guaranteed huge profits while taking no risks. Those transactions helped provide \$30 million for Mr. Fastow and millions for other Enron insiders. Role of auditors At the heart of the present intense scrutiny is the role of Enron's auditors, Arthur Andersens, who are now being accused of having a conflict of interest by providing audit

Big Five (and other) firms were providing audit and consulting services to the same client, until the then chairman of SEC, Arthur Levitt, insisted in year 2000 that the audit and consulting services should be carried out by separate entities and under totally different names. Interestingly, Andersens were the first to split, with Arthur Andersen retaining the audit function and a new company, Accenture, was set up to look after the consulting. They were followed soon after by Ernst & Young, but not by all the other firms. Levitt had to relinquish his position after the Bush government was sworn in and the pressure was off, at least for the time being. A new administration and a new SEC chairman, Harvey Pitt, have not followed up with the same zeal. It is also interesting that it was an ex-Andersen employee and an Enron Vice President, Sherron S. Watkins, who actually blew the whistle on Enron. In a blunt and no holds barred letter to Enron CEO, Ken Lay, dated Aug 15, 2001, she wondered if Enron was creating income by essentially doing deals

Angina treatment : Too old for bypass surgery?

ARTI MULCHAND

HEART patient Anthony Chan, 89, has had a coronary angioplasty, but still has one more blocked artery and suffers from chest pains. Because of his age, heart bypass surgery to treat it is quite risky. But thanks to a new machine that has just been brought in from the United States by cardiologist Leslie Lam, he still has options for his ailing heart. He will be the first Singaporean here to try Enhanced External Counterpulsation (EECP), a non-invasive technique that has been used to treat angina in China for two decades, and which recently became popular in the United States. Angina, a disorder marked by a strangling sensation in the chest, signals that part of the heart muscle is not getting enough blood and oxygen, possibly because arteries bringing blood to the heart are narrowed or blocked. In EECP, three sets of cuffs are wrapped around the patient's calves, thighs and buttocks. They inflate in sequence, compressing the lower limbs. "What it is actually doing is massaging the legs really hard....and squeezing blood to the heart," says Dr Lam, who brought in the \$400,000 machine on a three-month trial basis. The pressure is electronically timed to the heartbeat, so the EECP system pumps more blood to the heart when it is relaxing. When the heart pumps blood out, pressure is released, increasing the amount of blood and oxygen going to the heart and taking over some of its workload. The technique has its roots in China. In the early 1980s, a group led by Professor Z. S. Zheng started using a sequential three-cuff exter-

The EECP is a non-invasive technique used in China for 20 years to treat angina. It massages the legs and pushes blood to the heart



Joseph Chan (left) and his father Anthony Chan--both open to innovative heart treatments.

nal counterpulsation system which created a pressure wave by inflating sequentially from calf to thigh to buttock. China now has about 2,000 such machines, says Dr Lam, 59. But the international medical

community was not convinced initially. In 1989, the Chinese experience led investigators in Stony Brook, New York, to initiate a study. For 35 days over seven weeks, a study group of 18 patients, all with chronic, stable angina despite

surgical and medical intervention, were treated with EECP for an hour each day. All 18 saw substantial subjective improvements in symptoms and 16 were completely free of angina during normal daily activities. But, until 1995, only patients in the clinical trials could try EECP. In 1995, the Vasomedical EECP system, the machine also in place here, was approved by the US Food and Drug Administration. There are now about 400 units in operation in the US. Dr Lam is not aware of other countries using the technology. Because it is a non-invasive form of treatment, a licence is not required for it to be used in Singapore, he says. The EECP is used traditionally for patients who are unable to undergo an angioplasty or a heart bypass, either due to ill health or age. It is also used for patients who have undergone other procedures but get recurrent chest pains. Dr Lam first read about EECP in a medical journal two years ago. He considered it an innovative way to treat coronary heart disease and a good alternative to invasive procedures. His pilot group of six patients here -- who begin a seven-week treatment course from tomorrow -- will be culled from his private practice and the National Heart Centre and Changi General Hospital. Dr Lam is a visiting consultant to both institutions. He says : "It gives us more choice, so we are better able to deal with heart problems." But he adds that the EECP does not displace conventional forms of treatment for angina. "This would be used for patients who would not be able to undergo other forms of treatment. It would be a measure of last resort, unless it can be proven to be as effective as a bypass."