

## Three under-rated factors in decision making

SAADAT HUSAIN

CONVENTIONAL wisdom has it that decision making is a function of policy based acts, rules, regulations, instructions and guidelines applied in a scientific manner. We are conditioned to visualising an ideal environmental framework for decision making. The decision makers are supposed to be rational agents free from human inadequacies and fallibility.

They proceed rationally, deliberately and objectively, and opt for the best possible solutions. The decisions are not encumbered by the angularities of the decision makers and sensitivity of the environment and the gravity or uniqueness of the situation.

This does not tally with the real life situation. Decision makers are, often than not, selectively rational. They do not follow the algorithmic model in decision making.

Instead, they prefer to use instincts and predilections too often to arrive at the predisposed decision. In such circumstances decisions are hardly optimal; they leave much to be desired. The sub-optimal decisions nonetheless carry the usual force and implications of algorithmic decisions.

In most cases three factors, often unreported, influence the decision making process. They are situation factor, environment factor and personality factor. They are not mutually exclusive; they may occur

simultaneously to reinforce or offset the effect of one another. Ignoring these factors may lead one to miss the complex dynamics of decision making and land him with an erroneous inference.

### Situation factor

The situation obtaining immediately before or during the time of decision making is very crucial to arriving at the decision. Situations create compelling demands that are apt to undermine the prevalent rules and regulations, thereby bushwhacking their way through.

Such compelling situations are engendered by natural calamities like earthquake, flood, drought, tornado, tsunami, tidal bore, landslide etc, semi natural disasters like epidemics, or man made disasters like war, strike, mass upheaval or civil commotion. Normal management practices and standards give in to the exigencies of the real situation.

The manager has to improvise and respond to save the situation. He cannot go by the rules, which are rendered irrelevant, to match the situation. He will be an utter failure if he cannot rise above the rules and regulations during such trying circumstances, and come forward to save the distressed humanity.

Those who consider rules and regulations as sacrosanct may, at a later time, arraign the manager for deviating from them without permission of the appropriate authority. This will be a slavish mentality

which should be done away with for the greater interest of mankind and, hence, the nation.

When an emergency situation or a special situation crops up, it consumes the interest of all concerned. Every one is poised to overcome the situation at any cost. No one is in a mood to listen to financial, legal or administrative constraints, however genuine those may be.

Persons drawing attention to these constraints are looked upon with suspicion and are booed down by the enthusiasts around the table. The followers of rules and regulations find themselves helpless in the circumstances, and acquiesce to the proposals, which might transgress the legal remit, at times for no benefit to the sufferers or the common people.

The special interest groups often take advantage of the situation to serve their own purpose at the cost of legal and financial discipline. It is said, not without justification, that the greatest casualty in a natural disaster, say flood, is not resources but the discipline of the system that is undermined with impunity in the name of overcoming the disaster.

When the crisis is over the enthusiastic money makers vanish, leaving the poor managers in the lurch, to face the music from the auditors and pernickety vigilantes on the other end. As it is not possible for the managers to replay the situation, they often have to

bear the brunt of scathing queries from their bosses.

The classic case is VVIP visits from or to the country. The situation is full of activities, and hundreds of demands are placed by various agencies and special interest groups. Not all of them are innocent and rational. Many of them are not covered by the prevalent rules and regulations.

The ministers, let alone the officers concerned, have to oblige. Otherwise, they will be taken to task by their bosses and, at times, be suspected of sabotaging the program of the VVIPs. The carnival is over, the auditor is present at the door.

The poor officers, maybe the ministers as well, are put on the dock. They find it extremely difficult to account for the actions, which they were compelled to take during those brisk days of VVIP visits.

They suffer but the precedents persist, maybe with a different set of people to demand and to grant. The situation triumphs with its over-arching influence.

### Environment factor

Every meeting or conference has its own environment. The place, the crowd, and the occasion define the environment. The participants are not free agents in these conclaves. They may carry briefs from their organisations, and they may have prepared themselves well for presenting their points of view.

The atmosphere of the meeting

may, however, prevent them from expressing their opinions in the meeting. The chairperson of the meeting plays a crucial role in this respect. He sets the tone of the meeting. He may manipulate things in such a way that opponents to a proposal do not simply get the chance to speak out their minds, while the advocates of the proposal get ample opportunities to present their case and create a favourable opinion for their proposal.

Sometimes the chair himself comes forward to support or oppose a proposal, creating an environment for or against the proposal. Decisions in these meetings are, thus, hugely influenced by the environment factor.

Outside the meetings, environment factor may also be called in to decide the fate of a case. A special interest group may prevent the other groups from participating in the decision making process by manipulation or by sheer application of force.

A vicious environment may be created such that only a particular type of people can operate in that place. Fair minded and innocent people are compelled to opt out. If there is a big change against the special interest groups, the rules of the game change, and new groups start operating in that environment. A different set of decisions emerges in that environment.

The environment factor's dominance in decision making is appar-

ent from these examples. The rational decision maker has very little to do to dominate the environment, unless he is in the driver's seat; he has to take the environment as given. The ingenious people, therefore, first work to turn the environment in their favour before taking the matter for a decision in the meeting or by the appropriate authority.

Once the right environment is created, they find it easy to get the decision in their favour. Playing to the tune of the environment or creating propitious environment is very important for getting the desired decision.

### Personality factor

The decision making process and the outcome thereof depend to a large extent on the personality of the persons involved in the matter. Personality includes stature, social and hierarchical position, physical attributes, reputation and expertise of the person.

Towering personalities dominate the proceeding, be it in the office, formal meeting, informal kaffeeekatsch, focus group discussion, or in public discourse. Ordinary mortals cringe before them.

They cannot present their viewpoints clearly before these towering personalities, even when they have a strong case. On the other hand, persons with towering, or at times overbearing, personalities establish their case by sheer force of personality.

They sometimes resort to bullying the crowd by what may be called "verbal terrorism" or "stance terrorism."

The position is aggravated if the overwhelming personality happens to chair the meeting, or he is the final authority to take the decision. Differing with him means inviting an unpleasant situation, which peace loving individuals will like to avoid.

If the imposing personality wields controlling power his presence can effectively silence all the potentially opposing views. The veiled threat of perceived punishment does the trick.

The author has noted that even persons with higher status do not like to cross swords with belligerent persons because the latter use unpalatable words much to the chagrin of the senior.

On the other end of the scale are persons with dwarfed personalities. They are usually peevish and reticent. They cannot articulate their points or press their cases to get them through. They backtrack at the slightest opposition to their proposal.

The chairperson in most of the cases goes with the truculent because he wants to follow the path of least resistance. In the process, good cases are shot down and in their places bad cases see their way through. The merit of the cases does not always matter, more important is the person who is holding brief for the case.

The author has observed that a proposal which was summarily dismissed in the meeting was readily approved when, on the next occasion, it was moved by a different person with a towering personality. On both occasions members of the house did not have the patience to go into the merit of the case. Such is the reality. Personality in many cases is more important than the merit of the case.

Decisions are not taken in a vacuum. They flow from the complex interaction of multiple actors, say personalities, in a specific environment made up of situational elements.

Decisions should not, therefore, be conceived of as the product of a scientific search for logical conclusion by rational actors only. On the contrary, each decision is produced by a unique interaction of multiple factors, of which situation factor; environment factor and personality factor play a dominant role.

In analysing or evaluating a decision the contextual factors, particularly the factors mentioned above, must be taken into consideration and an investigation carried out as to how they have influenced the decision making process. The better it is done the more correct will be the appreciation of the decision.

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## Maintaining the momentum on Burma



DAVID MILIBAND and BERNARD KOUCHNER

THE world has reacted with horror to the Burmese regime's brutal crackdown against its own people. Monks, nuns and ordinary citizens took to the streets peacefully in protest at the deterioration of the economic situation in the country. They were

met with guns and batons.

We cannot know for sure the number of those who were killed, but it is likely to be many more than the regime is willing to admit. The whereabouts and welfare of many who have been detained remain uncertain. And, meanwhile, the persecution continues: the security forces carry out new raids and new arrests every night.

It is vital that international pressure is maintained on the Burmese regime. The generals may have hoped that by shutting off the internet and targeting the media they could hide their crimes from the eyes of the world. If so, they have failed. This horrific repression has provoked disgust and anger across the globe.

The immediate priority is to end the violence and secure the release of all of the political detainees. At the same time, it is vital that the regime works urgently with the UN Special Envoy Ibrahim Gambari to establish a genuine process of national reconciliation. That process will, of course, need to be very different from the widely discredited "National Convention Process," over which the regime has laboured for many years without winning the confidence of Burma's population.

It must involve Aung San Suu Kyi and the leaders of all of Burma's political opposition and ethnic groups; and it must have international legitimacy, with the UN and Burma's neighbours closely engaged.

Everyone who has influence on the Burmese regime must now use it to convince them of this new reality. The regime has now seen a very strong statement by the UN Security Council deploring the

violence, calling for the release of all political prisoners and a supporting genuine dialogue with all concerned parties and ethnic groups in Burma.

The junta will have heard Asean countries express their revulsion at the recent violence by the security forces. China, as well as joining the Security Council statement, directly supported Professor Gambari's recent visit to Burma.

Other neighbours -- India and Thailand, for example -- can also play a vital role in helping to build a better future for the people of Burma. It is clear that, for Asean in particular, turning a blind eye to such a repressive government would jeopardise the whole process of democratisation and development of this region, and damages its credibility.

Last month, as the demonstrations grew in intensity, the EU made it clear that it would not hesitate to impose tougher measures against the regime if it resorted to force against peaceful demonstrators. Sadly, the regime failed to heed this, and many similar, warnings. So Europe's foreign ministers met on Monday to discuss how to toughen up sanctions against the Burmese regime.

Existing EU sanctions, already included a travel ban and asset freeze on specific individuals, and a ban on commercial dealings with specific state companies with close ties to the regime. On Monday the EU agreed to target those sectors from which the regime draws much of its revenue, including timber, precious metals and gems, and made clear that whether further measures are imposed will depend entirely on the regime's willingness to allow genuine political progress in Burma.

All the signs point to a regime, which clearly feels under pressure. These new measures will help to maintain that pressure, by focusing on the business interests of the regime rather than the wider population.

The EU also expressed its readiness to help Burma in its process of transition: should the regime show its willingness to genuinely work for reconciliation we will remove restrictive measures, engage more fully on development and look for new areas of co-operation. In the meantime, we will continue to provide vital humanitarian assistance to the Burmese people in order to alleviate the suffering of the population.

EU sanctions and incentives, of course, can only be part of a wider process aimed at creating a genuine process of reconciliation in Burma. The Burmese people themselves, in all their diversity, must play the key role. This will be demanding; Burma, as some scholars have said, is a fragile "unfinished mosaic," with dozens of ethnic minorities, idioms and cultures.

Burma's regional partners have understandable concerns that the necessary political changes should not endanger regional stability. So the process must be broad-based and inclusive. And, as Aung San Suu Kyi has herself said, the military must play an important part in a future democratic Burma. But the military dictatorship must end.

The Burmese people have been denied democracy and economic development now for 45 years. They have taken to the streets once again and, in the face of horrific violence, to demand a better future. It's high time their leaders responded.

David Miliband is British Secretary of State for Foreign and Commonwealth Affairs and Bernard Kouchner is French Foreign Minister. This piece first appeared in the International Herald Tribune and Le Monde on October 15. Reprinted by arrangement.

## Does aid reduce poverty?

ZULFIKUR AHMED AMIN

HOLLIS Chenery and Alan Strout are proponents of the "two-gap" model of development. Which is: savings determine investments -- and per capita income determines savings. Since poor countries have low incomes, and, accordingly, low savings, they are caught in a "vicious circle of poverty." Thus, it is argued, investment financed by foreign aid will break this vicious circle and connect LDCs to the virtuous circle of productivity and growth.

Thus, to remove the shackles of poverty, many African countries received substantial aid over a sustained period, amounting to approximately \$400 billion from 1970 to 2000, i.e. around \$35 per capita per year. In Africa, aid as a percentage of Gross National Income (GNI) grew continuously between 1970 and 1995, starting at around 5 percent in 1970 and peaking at around 18 percent in 1995. During the 1970s, when the percentage of aid as a proportion of GDP was still relatively low, GDP growth per capita was high. In the late 1970s, the proportion of aid grew dramatically but GDP growth collapsed, and was even negative for several years.

In Mozambique, Official Development Assistance (ODA) covered the entire spending, including investment, consump-

tion and military expenditure, but it could not even be used entirely. This bountiful flow of aid funds left no room to spend the country's own savings inside its own borders. Mozambique's rich and powerful were really "forced" to invest their money overseas.

ODA accounted for 10.1 percent of Tanzania's GNP in 1985, and by 1990 the net ODA proportion of its GNP had soared to 69.3 per cent. In 1976, the country had a per capita income of \$180. Measured by that benchmark, 24 other countries were poorer. In 1986, Tanzania's per capita income was \$250, and only 13 other countries were less well off. Then, far above average assistance began to flow to Tanzania. The country's per capita income dropped to its lowest level of \$90 in 1993, and only one other country was poorer.

Since independence until June 30, 2006, Bangladesh received a total amount of nearly \$44.83 billion of foreign aid (A.N.M. Nurul Haque, *The Daily Star*). Out of the country's total foreign aid in fiscal 2005-06, the grant portion declined to 31.9 per cent from 47.4 per cent in fiscal 1973-74, and from 48.0 percent in fiscal 1990-91. Per capita debt obligation of Bangladesh has increased to \$139.91 in the last fiscal from \$6.59 in fiscal 1973-74.

Bangladesh pays an average of \$710 million to its foreign creditors every year. The government spends over \$1.5 in debt service annually

for every dollar in foreign grant aid received. Since 2000, Bangladesh has paid almost 10 percent of its export income in foreign debt servicing, making poverty reduction impossible.

Critics of foreign assistance argue that receipt of such aid discourages domestic saving. They believe that projects that represent good investment opportunities will be financed in any event, using private, foreign or domestic funding. The receipt of foreign assistance may simply divert those funds into consumption, with no net gain in total domestic investment activity. Kenya and Tanzania provide ample evidence of the perverse consequences of providing aid.

The reason why countries are poor is not that they lack infrastructure -- be it roads, railways, dams, pylons, schools or health clinics. Rather, it is because they lack the institutions of a free society: property rights, the rule of law, free market, and good governance. When money is given to the governments of countries that do not have these institutions it is not spent wisely, and following are the consequences:

- Very often, aid is spent on projects that benefit the political leaders at the expense of the citizens.
- Almost always, the money crowds out investment by the private sector and -- because

government is not good at making investment decisions -- it undermines economic development.

- Often, it has bolstered corrupt regimes that would have been thrown out otherwise.

A bigger question needs to be asked about the aid process: Is the motive behind aid, grants and soft loans really as altruistic as it is portrayed to be by those who advocate their usefulness in ending poverty? Are the policy prescriptions that the World Bank and the IMF "offer" really in the sole interest of the "beneficiary" countries? Are the financing organisations adequately transparent to disburse money?

Leslie Jean-Robert Pean, once a manager in the World Bank's Africa operations, was fired for accepting bribes from a consulting firm in exchange for influencing the retention of a consultant on a bank-financed project. Two major environmental projects, the \$26 million Sustainable Environment Management Program (SEMP), initiated by the United Nations Development Fund in Bangladesh, and the Sundarban Biodiversity Conservation Project (SBPC), financed by a \$77.5 million loan from the Asian Development Bank, were accused of major corruption and embezzlement, most likely with full knowledge and complicity of the UNDP and the ADB respectively.

Ultimately, the projects were abandoned, with over 50 percent of their total budget being spent on foreign consultancy services, leaving the Bangladesh government saddled with the task of paying back this \$77.5 million debt. In the 1990s, while reviewing the expenses of one of the Bank's education projects in Nigeria, an invoice of \$2,200 paid by the Bank for 18 cups of tea went knowingly ignored.

The economic or trade policies of a single donor may contradict and undermine its foreign assistance program. As it happened in Bangladesh, US authorities actively urged the government to promote manufactured exports of labour-intensive goods. Policies changed as a result, and some clothing exports soared in response.

Soon after the boom, US trade officials forced Bangladeshi authorities to negotiate quotas that would restrict apparel exports to the United States! Such restrictions have been in place since 1986.

A donor may require a recipient to spend some or all of its foreign aid on goods and services produced in the donor's country, a practice known as "tying aid," making aid costly. In 1992, Spain tied nearly 86 percent of its official development assistance, compared with Norway's 20 percent. The United States tied approximately 50% -- nearly \$6 billion -- of

its official development assistance.

The idea of providing a takeoff into sustained growth by foreign aid has been a dismal failure. Overall, aid has not reduced poverty, nor has it led to improved policies in developing countries. Most donors have failed to follow the Hippocratic principle of "do no harm."

Theory and the weight of evidence indicate that trade is strongly related to growth and development, but that the costs of aid may frequently exceed the benefits. Cutting aid would help to rid the world of incompetent, dysfunctional and corrupt governments, and give their people a chance to live a decent life. At the same time, rich countries should open up their markets to receive exports from developing countries.

The welfare gain to Africa alone, that would be achieved by a free trade regime in agriculture, is roughly the same as all countries' official spending on development assistance today. Trade has proven to be instrumental to increased welfare, not aid. The countries which can follow their own instincts and steadily divest themselves of "free" aid can progress furthest and fastest to guarantee a poverty free country for their people.

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## Online shopping

Isn't it ironic that we have a corporate credit rating agency (CRISL) operating for a few years now, but not a single consumer credit agency to access the credit worthy consumers among 150 million people?

ASIF ANWAR

ONLINE shopping is growing rapidly in most developing and developed countries for obvious reasons. Better price, open 24 hours, no dress code, no transportation cost, or time wasted going to and from market, many sellers and choices, tools available for comparison, are just a few of the benefits to a consumer.

For the seller, the main benefit is the huge reduction in cost, as online shopping eliminates the need for a showroom or sales staff, and offers 24/7 access to a large number of consumers, without geographic limitations. It is not hard to imagine the benefits of online shopping if you only refresh your memory of last week's Eid shopping in Dhaka. Unfortunately, online merchants of Bangladesh had nothing to celebrate this Eid.

The basis of online shopping is the ability of the merchant to secure payment electronically, or e-payment. That is, payment by credit card that is verified online for authenticity and routed through a gateway to the recipient. Access to the internet is not the only requirement for shopping online. An online consumer must also have a valid credit card in order to place orders.

Bangladesh has a large number of internet users, but only a few of them have access to credit, and even fewer have credit cards. These internet users without credit cards are what we call "window shoppers" in the real world.

The main problem that has arrested the growth of e-commerce is not the low level penetration of credit card usage, but the growth in credit card usage by new customers and by financial institutions. The sequential growth in the number of credit cards issued to new customers has been negligible due to the absence of a "consumer credit reporting agency" in Bangladesh.

A consumer credit reporting agency provides a credit report (called a consumer credit report or consumer credit score) on individuals eligible for credit from financial institutions or any other form of lender. A "consumer credit report" is something very similar to the CIB report by Bangladesh Bank, but expands the recordkeeping of transactions beyond financial institutions to include all monetary transactions of a consumer, like utility payments, cell phone payments, store credit card pay-

ments, etc. and personal information like recent addresses and length of stay. These reports are continuously updated, and sometimes quantified using risk/credit analysis models, to give financial institutions and lenders a benchmark to evaluate credit worthiness of an individual.

In advanced economies, consumer credit reports are available online, allowing a creditor to make an instant decision for the approval of credit. Growth in consumer credit is a catalyst in the growth of an economy. An increase in consumer credit has a multiplier effect on growth since it positively influences almost every sector of an economy. As a matter of fact, it is the only way we will see any growth in e-commerce in Bangladesh, since it is completely dependent on the growth in consumer credit.

It is essential for an economy to have at least one, if not a few, fully operational and reliable consumer credit reporting agency to stimulate economic growth through spending. It is not uncommon to find more than one credit reporting agencies competing within a single economy having sophisticated financial markets and instruments.

Bangladesh has a relatively small corporate world in contrast to the vast consumer base. Isn't it ironic that we have a corporate credit rating agency (CRISL) operating for a few years now, but not a single consumer credit agency to access the credit worthy consumers among 150 million people?

The companies that are covered by CRISL are definitely credit worthy to a certain extent and most, if not all, have publicly available financial information given in their listing with the Dhaka stock exchange. I really don't think that CRISL is making much significant contribution anywhere, except to the lives of the individuals employed by the organisation.

I understand it is difficult to operate a credit information agency with reliability if information is not recorded accurately, or is not easily available. The time to establish a private/semi-private consumer credit reporting agency has long gone. We will miss the e-commerce boat completely if we wait any longer to introduce a consumer credit reporting agency. It will take a very long time before a database is established, covering a significant portion of the eligible consumers in a country of 150 million.

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