

# Hallmark scam: Cracks in management and monitoring systems of banks

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FOR the last few days we have been witnessing a furore caused by Tk.3,547 crore loan scam in a branch of the Sonali Bank where a little-known company named Hallmark had alone siphoned off Tk.2,500 crore. This is unprecedented in the history of our banking sector because the borrower is neither a well-known nor a well-established company. It is in the air that this huge amount of money has been given to the company by Sonali Bank, Ruposhi Bangla branch, in completely irregular way which has been misused by the company. This is alarming news for our banking as well as the financial sector as a whole.

Usually, banks collect money from depositors and provide loan to business entities and other borrowers. After this huge Sonali Bank scam common people might lose their trust in the banks. They will not find it secure to keep their money in the banks. Many of them may even be tempted to withdraw their deposits in fear of a collapse of the banking sector like the share market collapse. If common people shy away from the banks this may cause shortfall of money in our banking sector as well as other financial sectors like investment, trade and commerce. If people withdraw money from banks then entrepreneurs would not get money from banks to invest in productive sectors. Since banks are very important institutions in financial intermediation in economic activities, the lack of trust in banks has a pervasive effect on the whole economy.

Now, let us see as to how a scam of this magnitude could be possible. I think this has been possible because of weakness in the management of the bank,

weakness in internal oversight and control and, most of all, due to collusion of some insiders in the bank and outsiders. I see the situation also reflects the lack of governance and overall control of the Banks Board of Directors, because they should have exercised their supervision and control over such a huge amount of loan. Usually, banks conduct audit of a branch once a year, sometimes twice. So here it is important to look into how the Board of Directors as well as the management led by the managing director supervised the process of providing such a huge amount to a single company.

of supervision, control, unwillingness to take action, failure of policy direction, greed, forgery and corruption.

Bangladesh Bank has recommended reconstituting the Board of the Sonali Bank. As a former governor of the Bangladesh Bank I welcome this step. On the other hand, I do not think that the finance minister's initial comment on Bangladesh Bank's authority to recommend the change is justified. Though, later, he accepted Bangladesh Bank's step, but we are yet to see quick and firm action from the government. According to the Articles 45 and 46 of the Bank

defaulters, and people with honesty and integrity, should be nominated to the Boards of all the state owned banks as well as in the private banks. In some cases directors are appointed under political consideration disregarding these requirements. Due to such political appointments such scams may occur in the future too. However, this scam

should be investigated immediately and the culprits should be brought to book. Suspension of officials from their jobs and dissolution of the Board will not be enough for the perpetrators; they should be given exemplary punishment so that no one will dare to do it again in the future. In many countries exemplary punishment was given to the perpetrators, even the accused politicians were not spared.

The regular audit teams, special audit teams, and supervision teams of all the government, non-government and specialised banks should be trained to be better skilled. Banks should hire independent external auditors to get better insights into the state of affairs of all the banks in Bangladesh. We have to carry out these steps at the earliest possible time so that perpetrators cannot escape and others can learn a lesson. The control and monitoring system of the Bangladesh Bank should be further strengthened and coordinated, and timely action without fear of any political and external influence should be taken. The Ministry of Finance, specifically the Banking Division, must take proper action immediately in tandem with the actions of the Bangladesh Bank. If these measures are taken at the earliest possible time the banking sector could be protected from any future disaster.

The writer is a former Governor, Bangladesh Bank.

**Prof. Jamilur Reza Choudhury,**  
Vice Chancellor, University of Asia  
Pacific, gives his instant reaction  
to the ongoing crisis in BUET to  
The Daily Star.

'The only solution to this situation is  
resignation of both the vice chancellor  
and the pro-vice chancellor'

THE developments at BUET during the last four months are having severe impact on the academic environment and also leading to uncertainty in the future of the thousands of students currently enrolled in the university. Moreover, the future of thousands of students who would like to pursue education in the fields of engineering, architecture and planning has become totally uncertain.

This is unprecedented in the fifty years history of this institution, which is recognised all over the world for its high quality education. The crisis regarding two persons, Vice Chancellor and pro-Vice Chancellor, against whom the teachers, employees and students launched a movement about four months back, should be solved immediately by government intervention.

A meeting was held in the Ministry of Education on July 17 on this particular issue where, in addition to the minister for education, a number of decision makers of the government were present. All the former vice chancellors were especially invited and they expressed the opinion that since the vice chancellor and pro-vice chancellor have lost the confidence of almost all their colleagues they should resign and the government should take steps to ensure honourable exit for them.

The only solution to this situation is resignation of both the vice chancellor and the pro-vice chancellor. Instead of waiting for the government to ask them to resign they should do so voluntarily. They are asking what wrong they have done, but all of the people who were present in the meeting in July 17 said that it is not about doing right or wrong but that the vice-chancellor and pro-vice chancellor who have lost confidence of more than 90% of their colleagues should voluntarily resign. Even in Harvard University the President voluntarily resigned when majority of the teachers thought that he should leave.



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Generally, the monitoring and control by the bank's Board of Directors and its Audit Committee and the Asset Liability Management Committee (ALCO) are imperative in such a big transaction. If proper audit had been conducted in this case why did the management (managing director and the staff below that) and the Board of Directors not examine the audit report? And if they did, then why had they not expressed their opinion or take action against the perpetrators? If audit reports were not placed before the Board, why the Board did not take action at the right time? This is an instance of an amazing combination of abject lack

Company Act, Bangladesh Bank is well within its rights to make such recommendation. But in a sub-clause of Article 46 this power has been curtailed in the case of the state owned banks. This is not good for regulating and supervising the banks by the central bank. I think that this law should be changed to remove the limitation of the central bank. Then the central bank would be fully responsible for the monitoring, control and discipline of all the banks.

People who have experiences in finance, economics, management of financial institutions and people who are not involved directly in politics, not loan

*A debate is now ongoing on the performance and legal standing of Grameen Bank, and the role played by its founder, Prof Muhammad Yunus. Yunus Centre has compiled a set of frequently asked questions and provided answers to them. The Daily Star reproduces, in installments, the full document for the sake of informed public opinion on this vital issue that has attracted tremendous national and international interest.*

## Questions by critics on Grameen Bank and the facts

by Yunus Centre

### [Concluding Installment]

**Q27:** Didn't Professor Yunus fail to groom a competent successor over the last 35 years? Didn't he do this intentionally so that he remains indispensable to Grameen Bank?

**Answer:** In Grameen Bank, the no. 2 position is the position of deputy managing director. There has always been someone in this position. When the position of the managing director falls vacant, the incumbent deputy managing director takes over the responsibility of the managing director. So there is no scope for vacancy in the position of managing director.

People have different perceptions of the word "successor." If we invite people to explain what they have in mind when they are talking about a successor, there would be no consensus. For example, the government is repeatedly saying that they will find a managing director for Grameen Bank through international advertisement. This implies that they are not expecting to find a competent candidate within the country. Maybe they already have some candidates from abroad in mind, which is why they are thinking in this way. Grameen Bank was created and managed by local men and women. This is the only Nobel Laureate organisation which was created within the borders of its own country, and not a single foreigner has ever worked there. Someone has to explain why a person from abroad has to be sought for the position of chief executive of this organisation. Why is there a doubt on the competence of people within Bangladesh?

Professor Yunus never considered that his colleagues were not qualified enough for the top post. He believed that there are a lot of people within the organisation, and within the country, who understand Grameen Bank's methods, policies and philosophy very well, and who will be a good fit for Grameen Bank, in spirit and work ethic. They would not take this job for the attraction of an international salary (which is several times the local salary); they would not have a personal agenda of building a credential of being the chief executive of a Nobel winning organisation to prepare for the next international assignment.

The government has repeatedly assured the nation that Grameen Bank has been functioning better than before. Then why is the absence of a successor being felt? Why are we looking for people from abroad when we have qualified people at home? Are those who are searching

for a managing director looking for someone who will fit in to their own society and speak their language? How can one say that Professor Yunus has not created his successors? His successors are doing pretty well. Each one of his successors has performed very well. He has actually groomed a series of successors, not just one.

**Q28:** Professor Yunus is said to have enormous leverage and connections abroad, but he hasn't used any of it for the nation. He has never been seen using his influence to solve any of the issues such as tariff-free entry of readymade garments into the USA, Padma Bridge financing, and the work permit problem for labourers working in Saudi Arabia. Why is he so averse to helping the nation?

**Answer:** If a citizen has some international influence, the government has a role in making use of that influence. The government has to give responsibility to this citizen, even if that is done informally. The government on the other side needs to understand that the citizen in question is backed by his own government; his words and actions are in conformity with the policies and expectations of his government; the role of this particular citizen is only of deepening and widening the understanding between two governments by using his goodwill. Fruitful discussions can progress under such circumstances. But the present situation with Professor Yunus is quite different. Because of the existence of very powerful media today, all governments of the world are already very conversant with the fact that Professor Yunus is treated like an adversary by the government in his home country. And they experience this too. Every time there is an event in honour of Professor Yunus in another country, the ministers of that country and the ambassadors of other countries posted there, eagerly participate in these events. But, inevitably, in hundred percent of the cases, the ambassador of Bangladesh remains absent. Everyone wants to know why the Bangladeshi ambassador is absent when he would be taking advantage of this event in promoting closer relationship with the host country, as one of the citizens of his country is being honoured. Of course, it is not difficult for anyone to understand the reason. Thus, the message is that things are not going well

between the government of Bangladesh and Professor Yunus gets reinforced.

Professor Yunus established a social business named "Grameen Employment Services" three years ago. The objective of this was to export manpower to various countries after providing appropriate training to them. Companies in various countries expressed their willingness to import manpower directly through this company. Several companies sent advance demands. The governments of those countries expressed their enthusiasm in this initiative. But this has not yet received the approval of our government. As a result, this company could never begin its operations. In the meantime everything has been arranged to open a training centre in collaboration with a Japanese company to train people in auto-mechanics and auto-engineering. We are not sure whether this company can get started under the present circumstances. In another case, a well-known German company had come with all preparations to invest •20 million in Bangladesh in a collaborative work with Professor Yunus. They had to go back disappointed.

Three years ago a senior member of the Saudi royal family, Prince Talal bin Abdul Aziz Al Saud, wrote a letter to Bangladesh government expressing his willingness to hold the Annual Prize Giving Ceremony of his "Arab Gulf Fund" in Bangladesh. The press from various countries, particularly Arab countries, would be present there. He himself and many dignitaries from various Arab countries would be present there. He invited the prime minister of Bangladesh to inaugurate the event and gave all the details of the whole event to our government. Prince Talal is a longtime friend of Professor Yunus. He replicated Grameen Bank model by establishing Microfinance Banks in seven African and Middle Eastern Countries. The government of Bangladesh informed him that the prime minister has gladly accepted the invitation, but no Bangladeshi other than the prime minister, finance or foreign minister would be allowed to speak in the inaugural ceremony. This answer from our government angered Prince Talal enormously. He wanted to hold the event in Bangladesh as a way to honour Professor Yunus. He decided not to hold the event in Bangladesh since Professor Yunus would not be allowed to speak on the occasion, and shifted the venue to Kuala Lumpur. On

December 1, 2009, in the presence of Prince Talal, along with many dignitaries from the Arab world, the ceremony took place in Kuala Lumpur. The Malaysian prime minister extended lavish hospitality and led the function with high pomp and circumstance. Prime Minister Najeeb included a segment in the inaugural ceremony to honour Professor Yunus. The relationship of Professor Yunus with Prime Minister Najeeb's family goes back a long way. In 1994 Professor Yunus was awarded the "Tun Abdul Razzaq Prize" on behalf of his family. The prize is in memory of Najeeb's father, who was a great national leader of Malaysia. Professor Yunus would be very happy to play a role in solving problems of Bangladesh. But someone has to make use of him.

**Q29:** Hasn't Professor Yunus proved himself to be a traitor to his country by using his influence on World Bank to stop the financing for the Padma Bridge?

**Answer:** Professor Yunus had already given a statement saying that Padma Bridge is a dream of the people of Bangladesh and that he would dedicate all his energy to realise this dream. There is no question of opposing this. Those who believe in the fiction that Professor Yunus has used his influence to stop the financing for Padma Bridge have no idea about the functioning of international institutions. Some of those who are propagating this fiction add that while he may not be pressurising the World Bank directly, he is doing so through his friend Hillary Clinton. In other words, he must have some sort of connection with World Bank's cancellation of the agreement. The tough world of international decision-making does not depend on the wishes of two friends. However eminent a person Professor Yunus may be, whatsoever number of influential friends he may have, a three billion dollar project cannot be stopped just because he wants it. Such a story has been floated to divert people's attention from the real issue, which is being published in the newspapers every day. The World Bank has pointed fingers at some people for corruption. The Bank said it has credible proof in its hand, and that Bangladesh must investigate. It will not be easy to divert the attention of the people from the real issue by making up wild fictions.