

Local government bodies mostly non-functional

Bangladesh Enterprise Institute unveils study on accounting and audit systems

STAR BUSINESS REPORT

THE local government bodies should have to activate their internal committees immediately to ensure transparency and accountability in financial activities at the grassroots level, a study said yesterday.

Bangladesh has three tiers of local governments -- Union Parishad, Upazila Parishad and Pourashava -- in a bid to decentralise the administrative work.

The local government bodies have a number of structural weaknesses such as ineffective functioning of ward and standing committees, poor monitoring mechanism and political bias in selecting committee members, the study said.

Bangladesh Enterprise Institute (BEI) conducted the study on local government audit systems, covering 14 union

parishads, seven upazila parishads and seven pourashavas.

"The law requires 17 standing committees for upazila parishads," said M Humayun Kabir, vice-president of BEI when sharing the findings of the study at the BISS auditorium in the city yesterday.

Standing committees are practically non-functional, with about 92 percent of the respondents claiming that meetings of the committees do not hold at all, he said.

"The committees are formed largely on political considerations and personal rapport with the chair, and hence not effective," said Kabir.

Though audits by OCAG take place over the local government bodies routinely, the process remains largely perfunctory and in most cases do not adhere to the objective of such audits, he said.

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Days are numbered for omnibus accounts

STAR BUSINESS REPORT

THE Bangladesh Securities and Exchange Commission (BSEC) yesterday rejected merchant banks' request to extend the deadline for replacing the omnibus accounts with individual beneficiary owner (BO) accounts.

The stockmarket regulator kept the deadline unchanged, meaning the merchant banks would have to complete the conversion process by tomorrow.

An omnibus account is an account in which money or securities for more than one beneficial owner are commingled by a custodian or a sub-custodian.

The use of such accounts is a common practice among merchant banks the world over due to quicker distribution of dividends and information regarding the stock.

Following the stock market crash of

early 2011, many parties including the government probe committee recommended closure of the omnibus accounts.

Originally, BSEC asked the merchant banks to complete the conversion of the omnibus accounts into separate BO accounts by December 2012, but following requests the deadline was extended to February 28.

At yesterday's meeting, the BSEC imposed a Tk 5 lakh fine on Hasnain Haron, a sponsor director of Takaful Islami Insurance, for violating securities rules while trading the company's shares.

In another development, the regulator approved a draft trust deed and investment management agreement of a Tk 10 crore open-end mutual fund, Alif Islamic Income Fund, to be managed by Alif Asset Management.

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Re-unveiling scandalous economy

Kelenkarir Orthoniti by Shawkat Hossain Masum

Cover: Touhin Hassan
Publisher: Suddhashar, Dhaka
Price: Tk 270 (132 pages, white)

ASJADUL KIBRIA

MORE than 40 years after independence, the development process of Bangladesh is significantly linked with corruption, irregularities and misappropriation, thus creating a strong ground of elements and events to originate a series of economic scandals in the country.

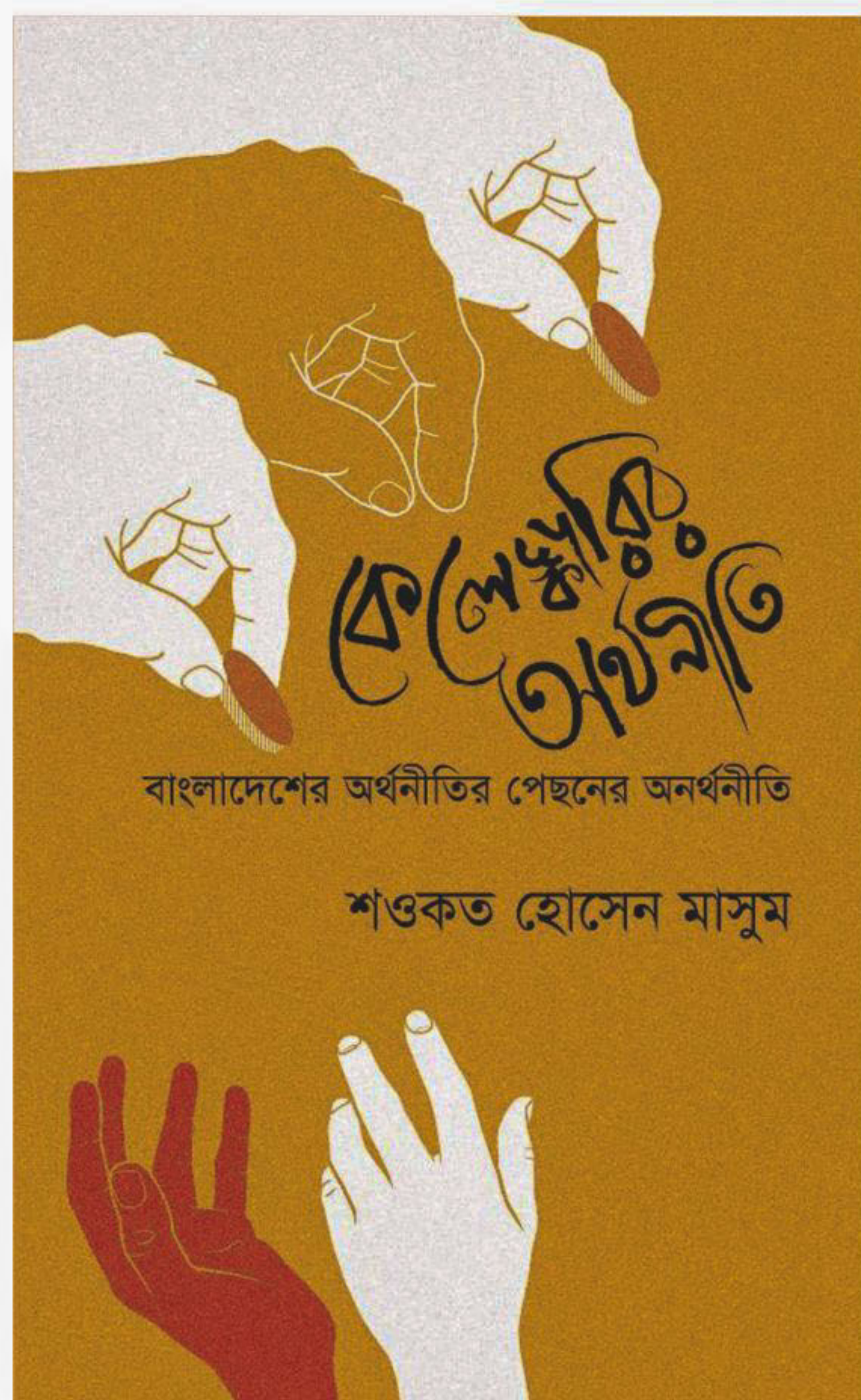
For the last few years, the country has been experiencing such scandals, one after another, on a large scale.

It does not mean that elements were not there earlier. Most of the elements to originate such scandals are actually rooted many years back. Some new elements have been added time to time when the musical chairs of policymaking changed.

As time has proceeded, the size of the economy along with some new and 'innovative' tricks has inflated the volume of scandals. The stockmarket is a good example. The debacle of the country's stockmarket in 2010 is the extension of the share scam that took place in 1996. While the history of stockmarket scams is comparatively new in Bangladesh, misappropriation of banks' funds in the name of default loans has started in the late 1970s. In recent years, the way of embezzling banks has been repackaged.

The new book of journalist Shawkat Hossain Masum has bundled such scandalous events from the last few years. The title of the book, 'Kelenkarir Orthoniti' (Scandalous Economy), is good enough to understand the subject matter.

Written in lucid language along with relevant humour, the 132-page book nicely re-unveils



financial and economic scandals. I am terming the initiative as 're-unveiling' as all the events compiled in the book have been exposed elaborately in our news media earlier. In the book, these events have been presented in an analytical manner and with reference to similar previous events. Thus the author tries to put historical context of the scandals and embezzlement in the financial sector of the country.

The book is divided into six chapters. The first five chapters cover plundering in banks,

stockmarket scam, Hall-Mark scandal, black money and corruption in Padma bridge project. The last chapter focuses on the positive development of Bangladesh and the future trend.

By presenting detailed information on each of the five critical scandalous issues, the author has been able to make the book a good reference. For example, the book includes the FIR of Padma Bridge graft case lodged at Banani Police Station and confessions and statements of the managing director of the Hall-Mark Group. The book extracts

relevant portions of different laws and reports on the financial sector reform programmes commissioned by different regimes.

At the same time, small pieces of information is coherently scattered across the book. For instance, depicting the experience of hectic lobbying that forced to remove an eminent person from the post of chairman of a specialised bank's board is small but interesting. Or, the story of 51 telephone calls from different ministers, MPs and business leaders to the chairman of another specialised bank for granting a loan proposal, is striking indeed. These clearly reflect a dedicated effort of the writer to making the book really informative.

Having two decades of experience in economic journalism, Shawkat Hossain also tries to go with investigative attitude, although none of the chapters is a result of the author's exclusive investigation. Moreover, a lot of information is used without clearly adding references, which, I think, is a weakness of the book. Although, a list of reference books, newspapers and magazines has been added at the end, it would have been better if there were detailed references, like the dates of the newspaper reports and the numbers of the government circulars.

A salient feature of the book is its vivacity. Most of the analyses are presented with small but interesting facts, and sometimes with jokes. The author has a very good sense of humor, which he nicely shared with the readers. Those who think that the book is based on economic rigidity should at least read the preface. The author does not write traditional prefaces; in its place he puts some humorous stories on both economics and journalism.

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India to put investors before voters in election-year budget

REUTERS, New Delhi

INDIA'S finance minister had a bruising battle with cabinet colleagues in the run-up to the budget he unveils this week, rebuffing demands for pre-election spending and insisting on austerity to shore up investors' faith in a troubled economy.

Aides to P Chidambaram said the eloquent Harvard-educated lawyer finally convinced leaders of his Congress party that more profligate spending would make a sovereign rating downgrade to 'junk' status inevitable and could trigger an economic meltdown.

In pushing for austerity, officials said Chidambaram met no opposition from Prime Minister Manmohan Singh - architect of the 1991 economic reforms that led to the "Incredible India" story - or from the welfare-minded leader of the Congress party, Sonia Gandhi, pointing to increasing acceptance of the depth of India's economic problems.

"He wants to send out a credible and strong signal that India is on the right track," said one senior official privy to the secrecy-shrouded preparations for the 2013/14 budget. "He apprehends that yet another failure to honour fiscal commitments could end the India story."

Chidambaram has staked his reputation on meeting deficit cutting targets, embarking last month on a road show of financial centres where he sought to reassure foreign investors that India was serious about getting its fiscal house in order.

Several officials involved in budget planning told Reuters that tackling the bloated fiscal deficit will be the centrepiece of Chidambaram's presentation to parliament on Thursday.

They said his budget has also been crafted to avoid unnerving investors, who were dismayed last year by plans to tax



P Chidambaram

merger and acquisition deals retrospectively and clamp down on tax evasion. Together with a widening fiscal gap, the tax moves triggered a flight of capital from Asia's third-largest economy. The rupee was hammered and, with exports and foreign direct investment slowing, fears of a balance of payments crisis mounted.

New Delhi missed its fiscal deficit target of 4.6 percent of gross domestic product (GDP) in 2011/2012 by 1.2 percentage point because of over-spending on social welfare and subsidies, prompting credit rating agencies to threaten a downgrade that would make India the first of the BRICS emerging economies to lose its investment-grade status.

Chidambaram has repeatedly pledged to lower the deficit to 5.3 percent of GDP this fiscal year and 4.8 percent in 2013/14. But with economic growth languishing around 5.5 percent after the sharpest slowdown in a decade, the finance minister cannot rely on tax revenues to meet his goals.

The finance minister told a budget meeting last month that India had no alternative to meeting the fiscal deficit target and a slippage could have dire consequences, according to a senior bureaucrat who was present at that meeting.

Officials told Reuters that he has already slashed public spending in the current fiscal year that ends in March by some 9 percent from the original target and for 2013/14 he plans to cap it roughly at the same level.

In a Reuters poll conducted earlier this month, 18 out of 23 economists predicted that the focus of Chidambaram's budget speech will be on slashing subsidies and government handouts.

That is not what other ministers wanted from the budget as the government - mired in corruption scandals and widely derided as incompetent in the face of the economic slowdown - faces a struggle for re-election in polls due by May, 2014.

Officials say that the rural development minister argued in one letter to Chidambaram against spending cuts that would hit housing and road construction in poor rural areas, on which the Congress party has traditionally relied for votes. He wrote again this month to avert a possible cut in funding to a rural employment guarantee scheme.

The tribal affairs minister wrote twice to Chidambaram to plead against cuts in welfare spending, worried that they could alienate tribals, who traditionally vote for the ruling Congress party. And the defence minister complained that budget cuts would hobble a grand plan to modernise India's armed forces.

Chidambaram wants these ministers and the railways minister to prioritise their spending, focusing primarily on critical projects, but has held out the prospect of additional funding if revenues pick up later in the year.

In a measure of the many demands Chidambaram faced, the Planning Commission -- a powerful body of government advisers -- sought an increase of at least 15 percent in capital spending over this year's original target to underpin growth. But he was ready to provide for a rise of just about 6 percent from actual spending.

"You can provide money only if you have money," said a top official at the Finance Ministry.

As well as keeping a lid on expenditure, Chidambaram is expected to announce steps to maximise revenues through more efficient tax collection, fewer tax exemptions and higher proceeds from the partial privatisation of state-controlled companies.

But, wary of dealing another blow to investors' confidence, proposals for higher taxes on the super-rich that were floated early this year appear to have been ruled out.

Japan passes \$142b stimulus budget

AFP, Tokyo

JAPAN'S parliament on Tuesday passed a \$142 billion extra budget that forms a key part of Prime Minister Shinzo Abe's efforts to tackle the deflation that has dogged the economy for years.

The 13.1 trillion yen (\$142 billion) package squeaked by the opposition-controlled upper house of parliament less than two weeks after the lower house approved the spending.

The measure is part of a wider stimulus package announced by Abe's cabinet in January, after his Liberal Democratic Party swept December elections on a pledge to revive the world's third-largest economy.

The new money will be earmarked for various economy-boosting measures, including job growth, upgrading Japan's ageing infrastructure, and rebuilding disaster-struck areas hit by the 2011 quake-tsunami.

Plugging a public-pension financing gap was among the other spending measures.

The total package could top 20 trillion yen if spending by local governments and the private sector was included.

Japan's economy shrank for a third straight quarter between October and December, leaving it mired in recession largely due to weak export demand, and stirring fears about its ability to cement a recovery.

Abe has pledged to pull Japan out of years of falling prices, which dampen demand and business investment, through big spending and aggressive monetary easing.

He has pressured the Bank of Japan for such policy measures, with a new central bank chief set to be nominated as early as this week.

The hawkish prime minister has also said he would boost defence spending. Japan is embroiled in territorial disputes with China and South Korea, while an unpredictable North Korea jangled regional nerves earlier this month with its third nuclear test.

But the big spending plans have stoked fears over Japan's already tattered fiscal health, the worst among industrialised nations, with public debt standing at more than twice the size of the economy.