

# Establishing accountable institutions

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**T**HREE seemingly unrelated major incidents happened in Bangladesh recently, each having large negative consequences for the economy. These are: the Hall-Mark scandal involving the theft of around Tk 3,600 crore from Sonali Bank; the cancellation of the \$2.9 billion Padma bridge project; and the collapse of the Rana Plaza causing tragic death of more than 1,100 people. The events were seemingly unrelated because they involve different actors in different segments of the economy with no obvious connection with each other. Yet, they share a common thread in that they are each a striking indication of the poor governance and the lack of accountable institutions in Bangladesh. Collectively, as citizens, we need to think and reflect deeply on these events because if the root factors that caused them are not addressed, the long-term damage to Bangladesh's development prospects can be substantial.

The Hall-Mark scam is a reflection of some serious institutional weaknesses in our banking sector. The ability of a small-time crook to siphon off Tk 3,600 crore from a public bank is a mind-boggling event. It speaks poorly about the institutional quality and accountability of our banking system. The facts that the swindled money still remains untraced and that nothing much seems to have happened to the crooks involved are by themselves worrisome. But more importantly we need to think through the underlying institutional weaknesses and take corrective actions quickly. Unless this is done, the downside risk to the banking sector, including the adverse signal sent to other potential predators, is large.

One major institutional issue is the autonomy of the regulator, the Bangladesh Bank. Two of the important reasons that the Hall-Mark scandal happened is first the lack of internal control mechanisms within Sonali Bank and second as a public bank it is outside the supervision purview of the BB. The two are inter-related. If Sonali Bank was under the supervision of the BB, it is conceivable that the board and management of the bank and internal controls would be stronger. The selection process of the bank management and board would have been done through a stronger scrutiny based on 'fit and proper' criteria rather than based on political connections. A stronger management and board would likely have been more vigilant and responsible. Moreover, supervision reports and follow through by Sonali Bank management would have been more frequent



REUTERS/FILE

Rescue workers look for trapped garment workers in the collapsed Rana Plaza building in Savar.

and could have resulted in early detection of the scam. Furthermore, a fully autonomous BB would have likely made wholesale changes to Sonali Bank management and board after the event, ensure that the new management follows through with the recovery of the money, and exerted pressure on the new management to pursue the full legal measures against the criminals.

More generally, the need for a stronger and autonomous central bank cannot be overemphasised. We have seen time and again how the lack of autonomy impinges on the performance of the banking sector and in the conduct of monetary policy. Political interventions in the licensing of new banks, in the matter of directed credits, in the matter of loan recoveries, in the matter of ensuring prudential norms, in the expansion of total credit and money supply are all evidence that Bangladesh would be better off with an autonomous central bank. The BB would be staffed with top professionals and would be primarily concerned with keeping inflation low and maintaining the stability of the

exchange rate, without the fear of taking any or all actions required to pursue these objectives. It would have the freedom to take any or all actions required to maintain the safety and health of the financial system without political intervention. In this environment, the scope for Hall-Mark type scam would be almost nonexistent and even if there is any such aberration, it will be swiftly countered.

The end result of the Padma bridge episode is a lose-lose proposition. Nobody gained but Bangladesh lost. The country lost not only from the withdrawal of the investment and associated financing package, but it also lost face internationally. The Padma bridge episode now features as an example in public discourses by senior World Bank officials concerning how their timely intervention prevented corruption from a major investment project.

Arguably, the Padma bridge is among the most important investment for the country today. Everybody agrees that this is a high-priority investment. It was indeed fortuitous that a package involving an excellent design,

fabulous financing terms and an international supervision team involving the lead donors was secured by the government. But when the time came for implementation, the deal fell through owing to allegations of corruption involving senior government officials. While the jury is still out regarding what exactly happened and who has the ultimate responsibility, the fact that government's own anti-corruption accountability bureau (ACC) acknowledged evidence of wrongdoing and filed charge-sheet against a number of senior government officials is indicative of associated problems.

Several lessons emerge from this unfortunate experience. First, if such a high-profile investment involving international donors gets tainted by allegations of corruption, it speaks volumes about the pitfalls in public procurement. Second, a process was agreed by the government and the lead donor agency, the WB, to resolve the dispute. By accepting this process the government demonstrated lot of courage but by failing to take it to its logical conclusion, Bangladesh lost out. This also

reflects adversely on the autonomy of the ACC to process high-profile corruption cases.

The Padma bridge episode suggests the need for several institutional reforms. First is the obvious need to strengthen public procurement. This is an involved process and is easier said than done. Successive governments have failed to come to grips with it. In the interim, the best possible option would be to require that all large donor-funded infrastructure projects should be done on a turn-key basis. This way, procurement responsibility will rest with the concerned donor that is financing the project. The government of course will need to have an oversight responsibility. Second, irrespective of which government is in power there must be an agreed social contract that public servants and ministers found guilty of wrongdoing will be prosecuted to the fullest extent of the law. Citizens have a right to ask this of their government. Third, the ACC has to be strengthened with full autonomy and resources to conduct proper investigations. When the idea of the ACC was born in 2004, it was conceived as such but consecutive governments have found it convenient to keep it as a weak organisation.

The Rana Plaza tragedy is perhaps the most disturbing event from a long-term perspective. The tragic loss of life of so many workers is by itself a major calamity. On top, this event unless deftly managed and mitigating steps are swiftly taken could pose a serious threat to the growth and sustainability of the garment sector that not only provides more than 75 percent of total commodity export earnings but also provides livelihood to an estimated four million workers, which is more than 50 percent of the total employment in manufacturing.

Newspaper reports suggest that there were a number of institutional lapses that led to the tragedy. First, reportedly the owner of the building did not own the land but occupied it through illegal means. As many of us know from other experiences such illegal land grabbing is a common phenomenon in Bangladesh, pointing to the severe institutional problems with the land administration. These include poor record keeping, a lack of computerisation of land ownership and land transactions, land valuation problems, and high transaction costs of land sale, purchase and recordation. Land disputes and associated corruption is a huge problem in Bangladesh. Establishing a sound land market institution is of the highest priority for Bangladesh's future development.

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# Yahoo's rise in Asia offsets risk from Tumblr bet

REUTERS, San Francisco

**Y**AHOO Inc Chief Executive Marissa Mayer's \$1.1 billion acquisition of blogging service Tumblr will be a test of her ability to revive the aging Web portal. Luckily for her, her performance may be graded generously.

Mayer faces plenty of challenges in her efforts to turn six-year-old Tumblr into a money-spinner, not least among them retaining users while devising new types of non-intrusive online ads outside of Yahoo's traditional area of expertise.

And then there is Tumblr's hefty price tag: a sum that equates to a fifth of Yahoo's cash.

But some investors and analysts say that Wall Street is more focused on the rising value of Yahoo's Asian assets, such as its 24-percent slice of China's Alibaba, than on actual business operations. That means the 37-year-old executive faces less immediate pressure to prove that Yahoo's biggest acquisition in years is a profitable one.

"Overall I'm relatively sceptical, but I don't think it matters much to the stock," Macquarie Research analyst Ben Schachter said of the deal.

"Say they destroy 100 percent of the value and drive Tumblr into the ground. It's probably less than a dollar per share in value," he said.

If Mayer's bet delivers, however, some investors say it could provide even more upside to a stock already trading at its highest levels in years.

"The core business is the lottery ticket," said Ryan Jacob, the chief executive of the Jacob Funds, who owns Yahoo shares.

"Investors' expectations for the core business are very low, so if they're able to reinvigorate growth, that will move the needle," said Jacob.

Yahoo's stock finished Monday's regular trading session up 6 cents at \$26.58. Its shares have surged roughly 70 percent since Mayer became CEO in July, largely due to stock buybacks and the rising value of its Asian investments, which also include Yahoo Japan.

Yahoo remains one of the Web's most popular destinations, but has seen its revenue shrink in recent years as consumers and advertisers favour rivals Google Inc and Facebook Inc. By buying Tumblr, Yahoo gets a much-needed platform in social media to reach a younger generation



REUTERS

Yahoo Chief Executive Marissa Mayer speaks at a news conference in New York on Monday. Yahoo Inc will buy blogging service Tumblr for \$1.1 billion cash, giving the internet pioneer a much-needed social media platform to reach a younger generation of users and breathe new life into its ailing brand.

of users less enamoured of Yahoo's traditional Web content and email.

Yahoo is paying a rich premium for Tumblr, whose nascent advertising efforts generated a scant \$13 million in revenue last year, according to media reports.

"Tumblr has low revenues and a big multiple, but far-sighted buyers in technology have shown that they can take small properties and put them onto their distribution system and do good things with them," said Adam Seessel, head of Gravity Capital Management, which owns Yahoo shares.

Take Google's \$1.6 billion acquisition of YouTube. That deal gave the search giant an important video service that boosted interaction with Google's other online services, he said by way of example.

Facebook's acquisition of photo-sharing service Instagram for more than \$700 million is considered another deft move by technology observers, allowing the social network to scoop up a fast-growing threat to its business -- even if the ad-free service hasn't delivered a financial boost to Facebook yet.

For every YouTube and Instagram there is a MySpace, the once-red-hot

social network News Corp acquired for \$580 million in 2005 but whose popularity plunged when its new parent plastered ads all over the service in a rush to monetise.

Mayer stressed Yahoo's commitment to create new so-called native ads that mesh seamlessly into Tumblr's content and are considered more suited to the service than the traditional online display ads that have long been Yahoo's bread-and-butter.

"We have gotten more and more focused on providing native ads and designing ads for that experience, so that's what we're going to get really focused on," Mayer, a former Google executive, told Reuters in an interview late on Monday.

But creating a class of ads that works is no simple feat.

"There isn't a template to do it," said Rebecca Lieb, an analyst with research and consulting firm Altimeter Group, who explained that native ads is a catch-all encompassing everything from advertorials to sponsored tweets that appear in Twitter.

While Yahoo recently began experimenting with news stream ads on its redesigned home page, doing native ads on a

broad scale could be tricky given the challenge of convincing brands and agencies to experiment with formats, Lieb said.

Yahoo must also hold onto Tumblr's bloggers, many of whom were already stomping their feet at being assimilated into the decidedly "less cool" Yahoo. Many vented their frustrations on the Tumblr blog entitled "Meltdowns about Yahoo buying Tumblr."

Defections have begun. As reports of the deal spread on Sunday, the founder of WordPress, a rival blogging platform, said it "imported" 72,000 Tumblr blogs in a one hour period.

Yet for many investors, those questions are secondary to the impending IPO of Alibaba Group, which they say is one of the key factors buoying Yahoo's stock. Analysts and investors estimate the value of Alibaba to be around \$70 billion. But Lawrence Haverty, a fund manager with GAMCO Investors, believes it could be worth \$100 billion or more when it goes public.

In the event Alibaba's IPO does not live up to expectations, the fallout for Yahoo will be far more serious than anything that happens with Tumblr.

# Marks & Spencer says investment to hold back profits

REUTERS, London

**B**ITISH retailer Marks & Spencer posted its lowest annual profit since 2009 on Tuesday, hit by a drop in clothing sales, and said growth this financial year would be held back by investments online and in logistics.

The 129-year-old firm, battling to reverse seven straight quarters of falling underlying sales in clothing and homewares, said it expected a stronger performance next fiscal year, when new fashion ranges deliver results and capital spending falls.

At that point, it would look at improving returns for shareholders, it said on Tuesday.

Marks & Spencer (M&S) shares, up around 30 percent over the past year amid periodic bouts of bid speculation but still well down on their 2007 highs, rose over 4 percent in morning trade.

"Lower capex (capital spending) guidance for 2013-14 onwards ... could mean improved dividends, share buybacks or even a one-off payout," said Panmure Gordon analyst Jean Roche.

M&S is spending about 2.4 billion pounds (\$3.7 billion) over three years on store revamps, logistics, IT and systems, as well as selective investment overseas, as it seeks to become an international multi-channel retailer, connecting with customers through stores, the internet and mobile devices.

But it has struggled in a faltering economy and lost market share in its core womenswear business. Chief executive Marc Bolland is pinning his hopes on autumn/winter ranges that were unveiled last week by his new general merchandise team to generally positive reviews.

"However many operational improvements it makes, it's all immaterial unless the retailer can rediscover its panache," said John Ibbotson, director of retail consultants Retail Vision.

Bolland, brought into M&S in 2010 on a multi-million pound pay and performance-related bonus scheme, acknowledged the challenge, but was confident of success. "Two years into a three year plan, we've made strong progress on the transformation. We know we've got a job to do on general merchandise and womenswear," he told reporters.

Chief Financial Officer Alan Stewart said M&S's investors backed the board. "They agree with the strategy, they agree with the investments we're making. They're recognising that it is a process of transformation," he said.

M&S also said it had appointed Patrick Bousquet-Chavanne as its new marketing director. Bousquet-Chavanne, currently corporate director of strategy implementation and business development, will succeed Steven Sharp in July.

M&S, which serves 21 million shoppers a week from over 700 UK stores, made a profit before tax and one-off items of 665.2 million pounds in the year to March 30, a second straight fall, on sales up 1.3 percent to 10.0 billion pounds.