

## Hold the elite to account

### Investigation into financial sector irregularities crucial step forward

It seems that the government has, finally, woken up to the fact that certain powerful groups have been allowed to abuse the country's banking system to the point of creating serious vulnerabilities for this vital sector.

An investigation into S Alam Group – which has been accused of violating banking rules, manipulating the banking system and misrepresenting the value of their assets for the purpose of excessive borrowing – has now been initiated. The High Court has also taken the Anti Corruption Commission to task for not proceeding fast enough with its investigation into the Islami Banks' loans and the involvement of this group.

One of the largest conglomerates in the country, S Alam Group has been at the centre of a storm of controversy after they were alleged to have borrowed more than Tk 30,000 crore from Islami Bank, even though rules dictate it cannot borrow more than Tk 215 crore. This is only one of eight banks that this group has stakes in – an astounding number that reflects its outsized influence – and we dread to think how much more has been extracted from the banking system through its abuse of power.

While we commend the authorities for initiating the investigation, we cannot help but remind them that S Alam Group is perhaps the most dramatic symptom of a malaise that has brought the financial sector to its knees. The fact that the amount of default loans has multiplied by 29 in 32 years – from Tk 4,646 crore in 1990 to Tk 134,396 crore today – illustrates just how long this disease has been choking the system.

We cannot accept that this entire time, the authorities were unaware that the banking system is under siege from powerful quarters – both financially and politically. However, not only did it fail to implement measures to protect public interests, but it has bent over backwards to create space for defaulters, many of whom are money launderers, to continue to manipulate the system at will.

What is truly astounding is just how upfront this manipulation has been. Rules have been changed to allow higher numbers of family members on banks' boards, loans have been continuously rescheduled, and a culture of cronyism has not only been normalised, but converted into a perverse show of power.

The current state of affairs reflects how much the oversight functions of Bangladesh Bank has been eroded as well. Either the central bank is not aware of its duties – which cannot be the case – or it has surrendered them to political groups. And if it continues to fail to address such decades-long irregularities, it will not become difficult to argue that, on this score of non-performing loans, it has become functionally irrelevant.

It is interesting to note that even after Singaporean media outlets wrote on S Alam Group's hotel purchases in the city-state worth millions of dollars, all the while having huge amounts of loans in Bangladesh, no relevant authority investigated, or even commented on, these discrepancies. What does that say about our political will to deal with this rot in our system?

For too long, a culture of impunity and a “rules are there to be broken” attitude has suffocated the country's banking sector. Powerful business groups have made a mockery of the system, leading to the decline of the financial sector and putting our entire economy at risk. We hope this investigation into S Alam Group is a sign that the government will finally acknowledge its dangerous lapse of accountability in the financial sector and prioritise the people over the country's politically-connected elite.

## Bangladesh Railway misfiring on all cylinders

### Past high time for railway sector to face the music for its negligence

It seems not a week can go by when we aren't bombarded with news of the myriad irregularities taking place at Bangladesh Railway (BR). From the latest report on the sector by this daily, we got to know how around 30 percent (or 99 out of a total of 361) of the trains in BR's fleet are inoperative. Worse still, these out-of-operation trains are of the local, mail, and commuter natures, meaning that low-income passengers are being deprived of an affordable train service. While some of these trains were taken off the tracks during the peak of the Covid-19 pandemic, many of them have reportedly been inoperative much longer. This negligence of customer service on BR's part is only one symptom of how the state-run agency has been falling too short over a span of more than a decade.

Despite having spent at least Tk 71,113 crore of the Tk 107,645 crore allocated to it by the government (for the period between 2008-09 and 2022-23, under the annual development programme), the future of our railway sector remains muddled with overextended project deadlines, incredible cost escalations, and a generally lacklustre state of operations. As recently as on December 3, a report by this daily highlighted how not even one of the 35 projects being implemented by the BR is set to meet its deadline. Twenty-five of these projects have already been granted deadline extensions, some of which even happen to be a decade away. And though many of these BR projects have seen cost escalations of between 13 percent to even 100 percent, one project rose in cost by an astonishing 873.76 percent. One must wonder at how badly managed a sector must be, as a whole, for it to be functioning so poorly on every front imaginable.

Meanwhile, as has been widely reported already, BR has been sustaining losses for a decade and has made zero profit since FY 2008-09. In the last fiscal year, the sector's loss amounted to around Tk 2,300 crore and it has yet to bring its revenue up to pre-Covid numbers. As for the closure of train services, BR managers blame logistical issues such as a lack of carriages and lockmasters, and carriages which are beyond repair. But it is most concerning that BR higher-ups would rather focus only on building infrastructure rather than on training its workers and conducting proper maintenance of its existing resources. As one expert has pointed out, it is quite telling of BR's unprofessionalism that, despite so much of public funds being expended into it, it is not only failing to earn profits, but is also consistently providing low-grade services.

It is high time for the government to hold Bangladesh Railway accountable for its mismanagement of its monetary and other resources, failure to provide necessary service to citizens, and other uncountable internal irregularities. A sector so crucial cannot be operating in so haphazard a manner that it is almost non-functional.

# What is happening at the Islami Bank?



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Established in 1983 as a first-generation private bank, the Islami Bank Bangladesh Ltd (IBBL) began its journey with the slogan “Pioneer of Welfare-Oriented Banking.” The bank opened the doors of financial services to export-oriented industries and poverty alleviation projects. The UK-based economic magazine *The Banker* listed Islami Bank as one of the top 1,000 banks in the world for nine consecutive years since 2012 – the only Bangladeshi bank to have achieved that.

Foreign investors provided 70 percent of the bank's capital when it was established, but after a change of ownership in 2017, foreign shares fell to 32 percent, as reported by *Prothom Alo* in 2017. Among its 11 Middle East-based investors were the Islamic Development Bank (IDB), Kuwait Finance House, Dubai Islamic Bank, Al-Rajhi Group, etc. A client of JP Morgan also owned IBBL shares.

The change of IBBL ownership started in 2013 with the aim to free the bank from Jamaat-e-Islami's influence. The change was tacitly

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supported by pro-government elites, intellectuals, and the media. After a step-by-step change in ownership and management over several months, former bureaucrat Arastoo Khan, one of the directors of the bank and a representative of Armada Spinning Mills, a concern of the business giant S Alam Group, was appointed as the chairman during a board meeting on January 5, 2017. Several other independent directors joined the board as well, mainly coming from different companies of S Alam Group. The bank got a new vice-chairman and managing director in the same board meeting, in what was seen by the government as a “peaceful” changeover.



VISUAL: BIPLOB CHAKROBORTY

Foreigners started leaving the bank soon after the plan for a changeover became known. In a letter to the then Finance Minister AMA Muhith in January 2017, IDB President Bandar MH Hajjar said that, despite investors from Saudi Arabia and Kuwait, and IDB holding 52 percent shares in the bank, they were cornered by the decision to change the bank's ownership, according to a *Prothom Alo* report. A client of JP Morgan also reduced its 4.16 percent stake to 1.68 percent. Although the foreign owners had a clear influence on the bank's policy decisions, they gradually withdrew as the original bank owners became “cornered.”

According to its website, Islami Bank has 394 branches and 228 sub-branches. There are 33,686 shareholders listed in Dhaka and Chittagong stock exchanges (as of December 2021). The bank has 16.2 million depositing customers, and 1.8 million borrowers. At the end of 2021, the bank's deposits stood at around Tk 139,000 crore, which was Tk 5,000 crore more than Sonali Bank, three times that of Pubali Bank, and the second highest deposit in the private sector. The bank was also at the top of remittance collection. In 2021, it received nearly Tk 50,518 crore in remittance sent by the expatriates, while goods worth around Tk 64,530 crore were imported and goods worth about Tk 30,178 crore were exported through the bank.

Regardless, after the change of ownership, the bank fell into a major

man only a month after he set up his trading company and within 10 days of applying for the loan. There are other such instances of incredibly fast loan approval and disbursement. No collateral or credit report was required in any of the cases. Upon investigation, discrepancies were found in the information provided by debtors, such as fake addresses, contact numbers, etc.

The IBBL disbursed Tk 5,000-6,000 crore on average every year over the last six years, but between December 2021 and September 2022, it disbursed more than Tk 25,000 crore of loans, according to *The Business Standard*. The latest audit by the Bangladesh Bank show that the S Alam Group, which controls Islami Bank, alone took out Tk 30,000 crore of loans from the bank.

The Bangladesh Bank assigned an observer to the bank in 2010 to monitor lending activities, but withdrew said observer in 2020 without providing a reason. The central bank was silent despite knowing about the huge irregularities.

There is an allegation that the companies that took out loans for import financing from the bank spent only a small portion of the funds. If that is the case, then where did the rest of the loans go?

Abnormal amounts of loans to unusual customers, approved in unusually short periods of time, and irregular waivers for collateral mean that the bank has been hijacked –

either by the owner or by privileged businessmen. There are rumours in the market that a highly politically powerful business group is going to take over the ownership of the bank from S Alam Group. Such abnormal lending activities fan the flames of such rumours. Does this signal another “peaceful” transition?

Politically-motivated occupiers don't understand that bank deposits belong to its ordinary customers and not any special political entities. Taking advantage of the regulatory body's silence, politically influential businessmen are directly or indirectly looting money from Islami Bank through loans. The question is: what will happen to the one and a half crore depositors of the bank?

A commercial bank's deposit and lending operations are supposed to operate within regulations set by the central bank. Commercial banks take deposits and earn money through lending, i.e. investing. They need to reserve some securities in fixed and temporary funds, capital deposits and daily deposits. According to the International Monetary Fund's (IMF) Basel-3 guidelines, most of the banks in Bangladesh don't have mandatory capital reserves.

Nowadays, banks use the fractional reserve system to generate multiple lending cycles against a single deposit; in this way, new wealth is created, but the loan needs to be properly invested. The fractional reserve system trusts in the dependence of return on investment on bank loans. On the assumption that the loan given has been converted into investment assets, new loans are made again, by keeping a small portion as reserves. This cycle functions on the basis of the trust that the loan will be properly returned from that investment asset.

The fractional reserve system works where bank loans are converted into real investments, meaning that repayment of instalments is maintained and monitored. The creation of new money does not lead to inflation. But it is not working in Bangladesh, because the loan money is being laundered instead of being invested! The balance between the deposit and the credit cycle is disturbed by money laundering and loan defaulting. In other words, there are no regulatory obligations to convert debt into investment in Bangladesh, so applying the fractional reserve system here is risky.

If defaulting, looting and laundering of a bank's loans continue, as is happening in Bangladesh, the bank should, in theory, go bankrupt, unless it is artificially kept alive – that is, it's bailed out with public money. In the past, the Oriental Bank and The Farmers Bank were saved this way. Is the Islami Bank also heading in the same direction? If a quarter of the IBBL deposits of Tk 139,000 crore goes into default, there is no option but a bailout. Can the government, which is going through a financial crisis itself, afford such a burden?

## Gender-based violence not just a women's issue

HE Lilly Nicholls is high commissioner of Canada to Bangladesh.  
HE Winnie Estrup Petersen is ambassador of Denmark to Bangladesh.  
HE Shiruzimath Sameer is high commissioner of the Republic of Maldives to Bangladesh.  
HE Alex Berg von Linde is ambassador of Sweden to Bangladesh.  
HE Nathalie Chuard is ambassador of Switzerland to Bangladesh.  
HE Makawadee Sumitmor is ambassador of the Kingdom of Thailand to Bangladesh.

LILLY NICHOLLS, WINNIE ESTRUP PETERSEN, SHIRUZIMATH  
SAMEER, ALEX BERG VON LINDE, NATHALIE CHUARD,  
and MAKAWADEE SUMITMOR

The female ambassadors and high commissioners in Dhaka from Canada, Denmark, Maldives, Sweden, Switzerland, and Thailand are strongly committed to promoting gender equality and combating sexual and gender-based violence in all its forms. Ensuring the full enjoyment of human rights by all women and girls is fundamental for achieving the Sustainable Development Goals (SDGs), our global commitment under the 2030 Agenda.

Our countries believe that gender equality is a prerequisite for sustainable development, including social justice, peace and security, and prosperity. And yet, despite decades of struggle, gender inequality and gender-based violence continue to exist in our own countries to varying extents, as they do here. As long-standing friends of

Bangladesh, the countries that we represent have been working with stakeholders from the government and civil society for decades, to tackle the root causes of gender inequality. We are looking forward to our continued partnership towards this end.

November 25 marked the start of the 16 Days of Activism against Gender-Based Violence, an annual campaign that draws attention to the scourge of violence against women and girls. Sexual and gender-based violence includes any harmful act of sexual, physical, mental or emotional abuse based on gender. It happens disproportionately more to women and girls in every country and every society. At home, in schools, on the streets, at work, on the internet, in conflicts and in refugee camps. Violence towards women and girls

is omnipresent. Too often, this kind of violence is normalised and goes unpunished.

Sexual and gender-based violence devastates individuals, families and communities. The effects of such violence can be long-lasting and profoundly affect a person's life. But beyond the severe and long-term impacts of sexual and gender-based

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violence on the survivor, there are significant impacts on economic and social progress. So gender-based violence is not only terrible for the victim – it is costly for society.

It is imperative that we collectively address negative social norms and

beliefs that hinder women's and girls' equal opportunities and advancement in society. We are committed to this goal by protecting and advancing the human rights of women and girls, by supporting their equal participation in decision-making at all levels of political, economic and social life, and by reducing inequalities in access and control over resources.

Combating sexual and gender-based violence is not only a women's issue. It is a joint effort where we encourage all of society to engage. A societal ecosystem approach, where public and private sectors, academia, civil society, communities and families work together, is crucial for real transformative change. Without the active engagement of men and boys, we cannot achieve gender equality.

The 16 days of activism campaign is an opportunity for each and every one of us to reflect on what we can do to promote gender equality and to eliminate gender-based violence. In our own family, our communities, and in our societies.

Canada, Denmark, Maldives, Thailand, Sweden, and Switzerland are standing up to end sexual and gender-based Violence. Join us – for these 16 days, and every day.