

Help enterprises with easy credit

A leader of Chittagong Chamber of Commerce and Industry says start-ups need protection

PRABIR BARUA CHOWDHURY, Chittagong

EVERY businessman first focuses on establishing the business to give it a firm footing. It is only after that an entity can contribute to the economy, said Mahbubul Alam Chowdhury, senior vice president of Chittagong Chamber of Commerce and Industry (CCCI).

The chamber leader has been doing business in the insurance and gas refuelling sectors and has recently stepped into the steel sector.

"All of these have been contributing to the national economy and creating jobs for the local people," said Chowdhury, also a leading food items exporter and importer.

Chowdhury observed that small traders in Chittagong face problems in the initial stages of setting up their businesses in terms of getting loans.

"No-one here is ready to give loans to small traders at low interest rates. Different private banks have been issuing loans at 15-18 percent, which is too high for small traders," Chowdhury said.

"If we want to turn the country into a middle-income one, we have to decentralise the capital to people."

In addition, local traders suffer from power shortage that hampers industrial production, said Chowdhury, who also president of the Khatunganj Trade and Industries Association.

On policies on trading, he said it should be the first duty of a government to ensure a business friendly



Mahbubul Alam Chowdhury

environment and policies for the business community.

"The government should not control business activities. It has to adopt policies that will create competition among the traders."

On power constraints in Chittagong, Chowdhury said the condition of the energy sector is better than before, but it is still not up to the mark. The situation will improve once local industries can use gas at Semutang, he added.

"The managing director of

Karnaphuli Gas Distribution Company Ltd (KGDCL) told me that the gas from Semutang has been provided to Chittagong Urea Fertiliser Ltd (CUFL)," said the CCCI leader.

"Industrial units in the port city are facing an embargo on using gas, while gas is now supplied to the local industries for only three days a week."

He stressed the need for supplying gas from Semutang and Salda to factories in the port city.

He said the government could import gas from Myanmar for the local industries if needed, and it should look at alternate sources of energy as well.

Expressing satisfaction over the law and order situation in the port city, he said the situation is better than before and the local police administration is helpful towards the traders.

He said it would be better if the community police could be set up for wholesale markets, like

Khatunganj, to stop any wrongdoing.

The government should set up all government and private bank headquarters or appoint a deputy managing director (DMD) of every bank in the port city, Chowdhury proposed.

When one applies for a loan at any bank, officials send the documents to Dhaka, which is nothing but a waste of time, he said. The same happens when a trader applies for a letter of credit, he added.

Describing CCCI's role in the business sector, Chowdhury said the association has been playing an important role in making a bridge between the traders and the government, to solve the different problems traders face.

In an era of open market economies, the government should ensure necessary help for the investors; when an investor wants to invest here, he has to go to different offices in Dhaka for permission, he said. The government should set up a one stop service to provide all sorts of services that are required to launch and run a business, Chowdhury added.

"CCCI helps Bangladesh Garment Manufacturers and Exporters Association to operate properly. Due to a long-term role played by CCCI, a full-fledged bond commissionerate has recently been introduced in Chittagong, which is very helpful for the readymade garments sector as well as others," Chowdhury said.

On the working environment in different industries, he said the atmosphere prevailing in most

industrial units in the port city is pleasant.

Most of the factory owners have been following the salary structure for the workers and providing the necessary facilities.

On unionism, Chowdhury said he is not against it but its activities should be fair. Trade unions help factory owners because they can directly be in contact with the leaders to solve the problems.

Chowdhury said he is thinking about expanding his business into shipping.

He has already received a licence to buy an oil tanker and he hopes to start the business early next year.

Chowdhury suggested the government ensure structural development of this port city to make Chittagong a business-friendly city and a regional economic hub.

He said although the government is thinking about giving transit to different countries, the roads and other structural facilities are not up to the mark.

"If the government wants to see this as a regional hub, it should focus on developing infrastructures."

Chowdhury urged the government to address the environment and climate issues at micro-levels to combat pollution.

The government should spread the concept at grassroots levels, and everybody should abide by the rules.

A separate industrial zone could be set up for the environment-friendly industries in the port city, the CCCI leader said.

Streamlining business

Corporate governance key to attracting foreign investors

ZAKIULLAH SAYEED MUNSHI

BANGLADESH today is the 70th largest exporter and the 3rd largest RMG exporter in the world, boasting the 21st fastest growing economy. The world's two top credit rating agencies, Standard and Poors (S&P) and Moody's Investor Service, for the first time, assigned sovereign credit ratings to Bangladesh. S&P assigned BB- and Moody's Investors Service assigned Ba3 to Bangladesh and termed the macroeconomic outlook of the country 'stable', putting Bangladesh at par with Philippines, Vietnam and Turkey. In the South Asian context, Bangladesh is positioned higher than Pakistan and Sri Lanka.

Several global financial institutions have identified Bangladesh as one of the potential economies of the world. Leading US investment bank Goldman Sachs has included Bangladesh as one of the rising economies of the world, the so-called Next 11 (N11), after the BRIC nations of Brazil, Russia, India and China. Similarly, JP Morgan, another global leader in investment banking, has included Bangladesh in its 'JP Morgan Frontier Five'. And, in their 2006 report on "The World in 2050", Price Waterhouse Coopers extended their analysis to include 13 other emerging economies including Bangladesh in their new 'PWC 30 list' as one of the long-term potential growth economies by 2050.

While these are all extremely positive for Bangladesh, the big question now is what will ensure that this growth trajectory remains consistent and ensures that Bangladesh becomes a middle income country by 2030?

Sustained long-term economic growth is fuelled mainly by investments, employment and technology and good corporate governance is the sustainability factor that will ensure the consistency of this growth. A good corporate governance framework is one that is accountable, fair, transparent and responsible. These ensure strategic guidance of the company,

the effective monitoring of management by the board, and the board's accountability, and protect shareholder rights, treat all shareholders, including minority shareholders, equitably and provide effective redress for violations.

Transparency provides timely and accurate disclosure of all material matters of the corporation including financial situation, performance, ownership and governance.

Being responsible recognises legal rights of shareholders and encourages active co-operation corporations and shareholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

The good news is that the public and private sectors in Bangladesh have taken steps to improve corporate governance in recent years. The Securities and Exchange Commission issued guidelines on corporate governance in 2006 and the creation of a Central Depository has made share ownership and transfers more secure. International standards for accounting and auditing have been partially incorporated into local standards and the development of the accounting and auditing profession has been assisted by a wide-ranging donor-supported programmes. Bangladesh Enterprise Institute, Institute of Governance Studies, Bangladesh Bank Training Academy and, more recently, Bangladesh Institute of Capital Market have championed corporate governance efforts in Bangladesh.

However, obstacles remain. In spite of the above achievements, the basic legal framework for corporate governance in Bangladesh is dated, and there are a number of contradictions and points of confusion between the various rules and regulations that apply to listed companies. Building on current efforts, more needs to be done to raise the quality of accounting and auditing. Greater independence and professionalism is required in the boardrooms of both listed companies and state-owned enterprises and, nei-



ther the Registrar of Joint Stock Companies nor the courts are particularly effective at enforcing the Companies Act.

Understandably, one question may come up: why would corporate governance be of benefit to Bangladeshi companies? The reasons are simple:

Corporate governance improves shareholder value and competitiveness by

Optimising operational and financial efficiency: Good corporate governance streamlines business processes, leading to better operating performance and lower capital expenditures (Gompers, Ishii and Metrick, Corporate Governance and Equity Prices, August 2001), improves the company's return on capital employed (ROCE) and ensures better share performance, higher profitability, larger dividend payouts and lower risk levels than peers (Lawrence Brown, Georgia State University, Sept. 2003)

Improving access to outside capital: Global institutional investors managing more than 1 trillion of assets state that they will pay a premium for well governed companies. Premiums average 30 percent in Eastern Europe and Africa and 22 percent in Asia and Latin America

(McKinsey Global Investor Opinion Survey on corporate governance, 2002).

Escalating valuation and lowering the cost of capital: Over 10 years, well-governed companies across a wide range of sectors have seen superior valuation multiples of more than 8 percent over their badly governed peers (Metrick, Ishii and Gompers, Corporate Governance and Equity Prices, August 2001).

One standard-deviation improvement in governance brings an improvement in valuation multiples that ranges from 18 percent for companies in major OECD markets to 33 percent in emerging markets (Clapper and Love, World Bank, 2002)

Builds/improves the company's reputation and trust: Corporate governance can make or break reputations by creating confidence, establishing goodwill and building/restoring investor trust.

Naturally, there is the issue of cost. Good governance entails real costs. Some of the costs include hiring dedicated staff such as corporate secretaries, experienced and independent directors, or other governance specialists. It will likely require the payment of fees to external counsel, auditors, and consul-

ants. The costs of additional disclosure can be significant as well.

Furthermore, it requires considerable managerial and supervisory board time, especially in the start-up phase. These costs tend to make implementation considerably easier for larger companies that may have the resources to spare than smaller companies whose resources may be stretched quite thin.

A company will not always see instant improvements to its performance due to better corporate governance practices. However, returns generally exceed the costs. This is especially true when one takes into account that without good corporate governance too much power is centred on one individual without proper oversight, and one enters markets that one does not understand and fails to properly set strategy and manage risks.

In absence of good corporate governance, board fails to ensure controls, poor disclosure and transparency becomes commonplace, and shareholder rights are mistreated.

In extreme cases, systemic governance problems may even undermine faith in the financial markets and threaten market stability.

Building on the existing efforts

mentioned earlier, the International Finance Corporation (IFC) of the World Bank Group has recently initiated a comprehensive corporate governance advisory project -- Bangladesh Corporate Governance Project (BCGP) -- which aims to improve financial performance and operational efficiency by promoting better corporate governance practices among business enterprises in Bangladesh. This project is jointly funded by the Netherlands and SEDF (SouthAsia Enterprise Development Facility, a multi-donor facility funded by IFC, DFID, NORAD and managed by IFC).

The BCGP will work with various stakeholders (e.g., regulators, financial institutions, family-owned businesses, business associations, chambers of commerce etc.) to (i) improve corporate governance codes at the country level, (ii) raise awareness on corporate governance and its best practices (iii) develop a pool of trainers to help codify corporate governance principles in the market and also (iv) work with business enterprises on a one-one basis to improve their corporate governance practices. In addition, to sustain the advancement of corporate governance practices and to effect positive change in the market in the long run, the BCGP will aim to build/enhance the capacity of key corporate governance service providers (training and research institutes, consulting firms etc.), press and universities in Bangladesh.

In conclusion, it must be noted that corporate governance is not a one-off exercise but rather an ongoing process. No matter how many corporate governance structures and processes the company has in place, it is advisable to regularly update and review them. Markets tend to value long-term true commitment to good governance practice and not a single action or box-ticking exercise.

The author is project manager, Corporate Governance, International Finance Corporation, Dhaka, and can be reached at zaki.munshi@gmail.com.