Effective corporate governance a must

Senior IFC official talks about what Bangladeshi companies should do to reach the goal of becoming an emerging market

MD FAZLUR RAHMAN

BANGLADESHI companies needs to adopt good corporate governance practices and standards as the country fixes its eyes on becoming a recognised emerging market, said a top expert.

"In Bangladesh, there is a certain level of corporate governance, but the question is, to what extent is it applied? The country has the same challenges that many emerging markets have," said Philip Armstrong, head of Global Corporate Governance Forum of the International Finance Corporation (IFC).

He spoke to The Daily Star in Dhaka last month on the sidelines of a regional workshop organised by the forum and the International Centre for Journalists.

The forum is a multi-donor trust fund facility located within IFC. It is the leading knowledge and capacity building platform dedicated to corporate governance reform in emerging markets and developing countries.

Armstrong said corporate governance is a mechanism through which boards and directors are able to direct, monitor and supervise the conduct and operations of the company and its management in a manner that ensures appropriate levels of authority, accountability, stewardship, leadership, direction and control.

"Corporate governance ensures the company's growth and stability, balancing economic and social goals by aligning the interests of all stakeholders: employees, customers, suppliers, and communities."

He said shareholders get higher return on their investment; companies enjoy more robust growth, better access to capital, resilience to crisis and higher market capitalisation.

He said corporate governance is not so much about the regulations or duties and responsibilities of the directors and sponsors. It is more about articulating what are recognised good practices, whether good practices run the board room and good practices in terms of the structure of the board and sub-committees, he added.

He said corporate governance defines what one would expect of a good role of a director, how they conduct in the board and whether they understand their role in the board.

The 57-year-old said in both the developed and developing world, the corporate governance issue is still challenging.

"Historically the OECD (Organisation for Economic Cooperation and Development) principles set the international framework for good corporate governance practices and standards and it has grown in advanced markets. Following the global financial crisis, a number of flaws in the system have been identified."

"In developing markets, corporate governance is a challenging issue, given that many of the markets are in various stages of development."

Armstrong, who was born and raised in Zimbabwe, said corporate governance is not an issue that is unfamiliar to the developing market; the question is how to adopt and, more importantly, adapt international standards to local practices and customs.

"One of the things we promote is to ensure that the standards and rules of corporate governance are consistent with the stages

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Philip Armstrong

of economic development of the country in question."

Armstrong, who was in the military early on in his career, said good governance is a health check on the business -- it gives an investor the comfort that there are recognised practices taking places in the company.

"It is generally for financiers in a well-run company. It is beneficial in terms of lowering the cost of capital."

"Generally, investors and shareholders can feel comfortable. The quality of the reporting and integrity of the reporting can be reliable. The board of directors can rely on the information received from managers in a well-governed company."

He said family-run businesses should not be worried about ceding control over the companies if corporate governance is established within a company.

"The most important part is how you use governance when you make decisions in the company, whether they are family-owned businesses, state-owned companies or private sector listed companies."

"In my opinion, the real focus should be on how corporate governance practices enhance the quality of decision-making and therefore, the benefits and results that derive from the well-informed board in terms of a well-structured decision process."

"Think about corporate governance as important for your business process. Do not see corporate governance as a compliance issue, but something that adds value to your business."

He said there are a lot of corporate governance standards. Bangladeshi companies should look at those standards and practices that really add value to a business. "Overtime, you can look at the most sophisticated elements."

Armstrong said good governance results in not just good returns, but there is market recognition for it, as the market distinguishes the well-governed companies from the poorly governed companies, and makes appropriate choices in that regard.

He said corruption is a challenge for most markets, including Bangladesh. "For companies with good governance and efficiency to manage its own integrity, ethical and business values, define its long-term sustainability."

He said establishing corporate governance involves both the public and private sector. "I do not think it is the government's responsibility alone or the private sector's responsibility alone. I do not think that one should be waiting for the other."

"The government must demonstrate that it follows good governance practices in its procurement practices and when contracts and tenders are ordered."

"At the same time, the private sector has the responsibility to its own governance to address the way it confronts its challenges and responds to them and resist certain temptations of corrupt behaviour."

He said there is a big debate in the world at the moment over whether mandatory rules to enforce good governance will be applied or whether it should be left to the voluntary basis.

"The US has some of the world's most rigorous rules on corporate governance. And we still see problems in corporate governance in the country."

"My personal view on corporate governance is much more about behaviour than about rules. It is not that rules do not exist. It is more about the attitude of the company. It is the attitude of directors, boards and sponsors in terms of how they respond to requirements."

"I believe corporate governance is not a narrow view, it is a broader view, in which the conduct of the company has consequences for the society -- and it has benefits for the society."

The father of three advised Bangladeshi companies to look for the conventional standards on corporate governance and look at the stage of development of the company and what the long-term interests and goals are.

"Corporate governance is a process."

"A company has many stakeholders and a well-governed board understands the market, competitors and customers and its duties and responsibilities very well."

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How to shore up a telecom backwater

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IN 2010, I worked on a section of a report of International Telecom Union (ITU) about information and communication technologies in the least developed countries in telecom, I found to my unhappiness that Myanmar was one before the last in mobile telephony. Hearing that North Korea was reaching one million active connections by the end of 2011, I checked the data again. Now Myanmar is last, other than for St Helena, a UK colony with a population of 5,000, which does not seem to have any mobile.

It is not that North Korea has more mobiles than Myanmar, but that as a proportion of the population it is performing better, as a result of a rapid increase in connections driven by a foreign-owned private operator.

Myanmar has had mobiles for longer, but according to data reported to the ITU by the government, the government-owned operator's progress has been slow, compared to other low-performing countries that have not reformed their sectors.

There is no doubt that some of the data may not be accurate (whenever one sees numbers nicely rounded to thousands, one questions their veracity). It is the duty of the relevant country authorities to report the most current and accurate data to the ITU. In the case of Myanmar the 2009 number has been supplied by the telecom ministry, while the 2010 number is an ITU estimate, which explains the round figure for 2010 and not for the previous years. It would not be fair to use data from the ministry only for Myanmar, but even if one tries, there are problems. The ministry reports data by project not by aggregate connections; and the problems of rounded numbers persist.

But let us assume that there may be more mobiles in Myanmar than the ITU reports. Even then, it can, at most, overtake North Korea and regain its old place at second (or

Countries with lowest mobile SIMs/100 people,

SOURCE: ITU/ICT INDICATORS DATABASE, 2011
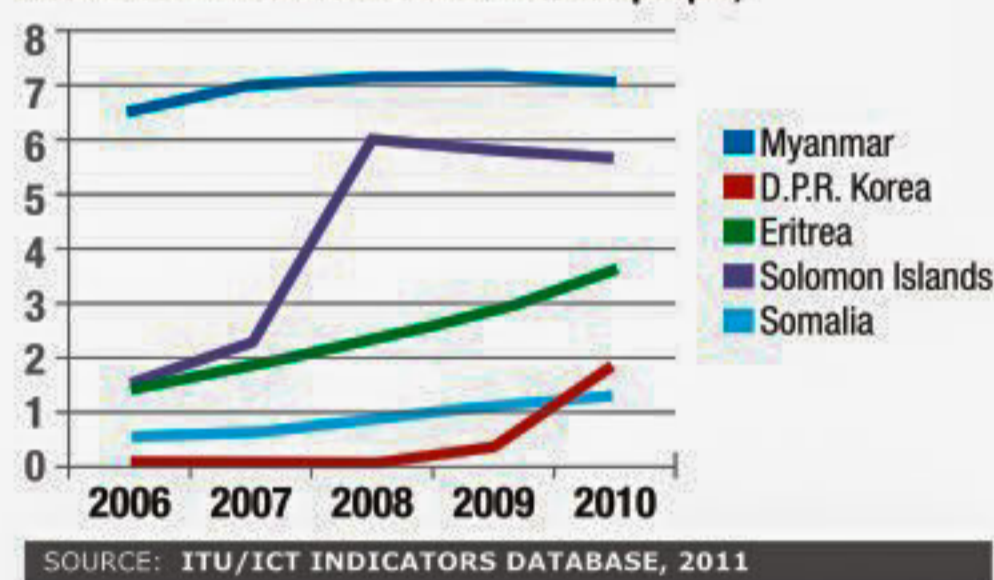
third, counting St Helena) from the bottom. Is this something worth debating? The real challenge is to vault out of the bottom ten altogether, and give the people of Myanmar electronic connectivity on par with the neighbouring countries.

To achieve this goal, Myanmar has an advantage.

LATE-STARTER ADVANTAGE

Starting late means that most of the mistakes have been made, by others. In the world of policy design, we spend the most effort working around previous mistakes. For example, Thailand's recent effort to develop its ICT sector has been bedeviled by the existence of concession contracts from a previous time. A green field is much easier to work with.

So, if the government wants to take Myanmar out of the bottom ten, what should it do? This is not the place for detail, but here are five key actions that must be taken at the outset:

• Building a national open-access fibre backbone as a public private partnership

• Conducting an assessment of spectrum use and availability, especially for 3G and 4G technologies

• Initiating action to refarm or reassign frequencies if valuable frequencies have been assigned to low-value uses (it is most likely that the military is using frequencies across the spectrum)

• Designing a technology-neutral access network licence system

• Designing and implementing a clear market entry/exit policy modeled on Pakistan's 2003 policies

In all these cases, the government should insist on solutions that are appropriate for developing country contexts and avoid the wholesale importation of policies developed and implemented in advanced market economies. International consultants will be required, but they should be carefully managed and coordinated so that the overall scheme is coherent and suits the local circumstances.

Managing the policy actions will require the establishment of a policy cell within a strong ministry, preferably finance and planning. Most, if not all, of the present employees of the telecom ministry should be moved into the national backhaul network PPP.

A sector specific regulatory authority will be needed. The first policy actions can be taken in parallel with the design and planning of the regulatory body.

GETTING THE ARCHITECTURE RIGHT

The green-field advantage will be lost if the overall architecture is not right, if the different policy actions do not cohere. For example, Timor Leste had green-field advantage, but wasted it by giving a long-term monopoly concession to Portugal Telecom. Today, Timor Leste is a telecom backwater, even if

it is not in the bottom ten.

One way to get the basic elements of the architecture right is to learn from the experience of China's engagement with the World Bank as it emerged from decades of closed-economy policies. Engaging with an entity such as the World Bank, rather than a specific country or company, opens up access to a range of lessons on telecom reforms: many successes, but some failures as well. The lessons are more important than the money.

I will illustrate with one failure and one success.

Since the late 1990s, the World Bank and its associated experts promoted universal service funds as effective tools to bring the benefits of connectivity to the poor. At the time, this was an attractive solution and one that was superior to the previous practice of imposing universal service obligations on telecom operators. While significant benefits were gained, the instrument did not perform as well as expected, with more than $8 billion lying unspent in universal service accounts worldwide.

The World Bank Independent Evaluation Group, upon reviewing experience in multiple countries over five years, conceded that it failed to live up to the original promise:

Equity and integration of marginalised groups have been more effectively supported by Bank support for ICT policy and sector reform than by operations specifically designed to achieve these goals. ICT operations that supported reforms to introduce competition into the sector, when successful in supporting those reforms, have had significant impact, especially in access to cellular telephony services. This increase in overall access has had a spillover effect of providing access to the underserved. Lower tariffs (especially in cellular telephony), falling handset prices, and the expansion of prepaid cellular services are all channels that facilitate access by the poor. One indicator of the poor becoming part of the customer base of cellular telephony providers is the monthly average revenue per user (ARPU), which declined from about $20 in 2002 to about $5 in 2010 in developing countries.

The success was in reforms to introduce competition to the telecom sector, as referred to above. Not only did these reforms bring the benefits of electronic connectivity to the poor, they paid back the costs of reforms manifold.

I was personally involved in managing aspects of telecom reforms for the government of Sri Lanka, funded by credits from the World Bank. The total expenditures could not have exceeded $15-20 million. In 2010 alone, the government of Sri Lanka took in $122 million as revenues from the partially privatised telecom industry. Today, Sri Lanka is at the forefront of ICT developments in South Asia (behind only the Maldives in mobile connectivity), with almost universal access to voice telephony at some of the lowest prices in the world, and making good progress on broadband connectivity as well.

The writer is the chair and CEO of LIRNEasia, a regional policy and regulation think tank, and former director general of Telecommunications of Sri Lanka.

Total mobile connections and growth rates among the countries with lowest penetration

	2006	2007	2008	2009	2010	2006-10 CAGR	2009-10 growth
St. Helena	-	-	-	-	-	N/A	N/A
Myanmar	214,214	247,641	367,388	502,005	594,000	23%	18%
D.P.R. Korea	-	-	-	69,261	431,919	N/A	524%
Eritrea	61,996	84,348	108,631	141,130	185,275	24%	31%
Solomon Islands	7,000	10,900	30,000	30,000	30,000	34%	0%
Somalia	550,000	600,000	627,000	641,000	648,200	3%	1%
Marshall Islands	1,000	1,500	2,000	3,000	3,800	31%	27%
Ethiopia	866,700	1,208,498	1,954,527	4,051,703	6,854,000	51%	69%
Cuba	152,715	198,252	331,736	621,156	1,003,015	46%	61%
Kiribati	700	750	1,000	1,000	10,000	70%	900%

SOURCE: ITU/ICT INDICATORS DATABASE, 2011.

Notes: CAGR stands for compound annual growth rate, the best indicator of growth over time.
The right-most column shows the percentage increase from 2009 to 2010.