



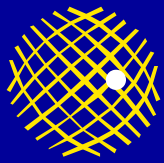
Corporate Governance for SOEs: The Bangladesh Context

Lopa Rahman
Project Coordinator
Bangladesh Enterprise Institute



A Snapshot of Bangladesh

Area	144,000 sq. km
Population	140 million
Density of Population	972 per sq. km
Male : Female Ratio	104:100
Per Capita Income	US\$440
GDP Growth Rate	5.4
Population Below Extreme Poverty	40 Million
Dependence on Foreign Aid	40% of ADP Budget



A Snapshot of CG in Bangladesh

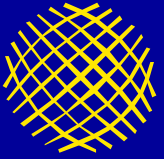
A comprehensive report by BEI “Comparative Analysis of Corporate Governance in South Asia: Charting a Road Map for Bangladesh” was published in August 2003

- High level Taskforce on CG was convened by BEI to draft a Code on CG for Bangladesh
- Introduction of CG in the Prudential Requirement by the Central Bank 2004
- Code of Corporate Governance for Bangladesh published by BEI in April 2004
- BEI organizes training programmes for Board members of listed companies, Banks & Financial Institutions, NGOs and State Owned Enterprises
- Securities and Exchange Commission inspired by the BEI Code introduced Guidelines on CG for listed companies on a “comply or explain” basis in 2006



SOEs in Bangladesh

- SOEs are entities owned wholly or partially by government
 - engaged in commercial activities
 - under corporation, regulatory agency or other branch of govt.
 - mainly came under govt. control post liberation
- There are 44 non-financial public enterprises in Bangladesh, each are accountable to their respective ministries
- Industry:6
 - under these six sector corporations there are a number of factories and industries
 - the corporations have their own board and the factories again have their board
- Power, gas and water: 5
- Transport and communication: 11
- Trade: 3
- Agriculture:2



Performance

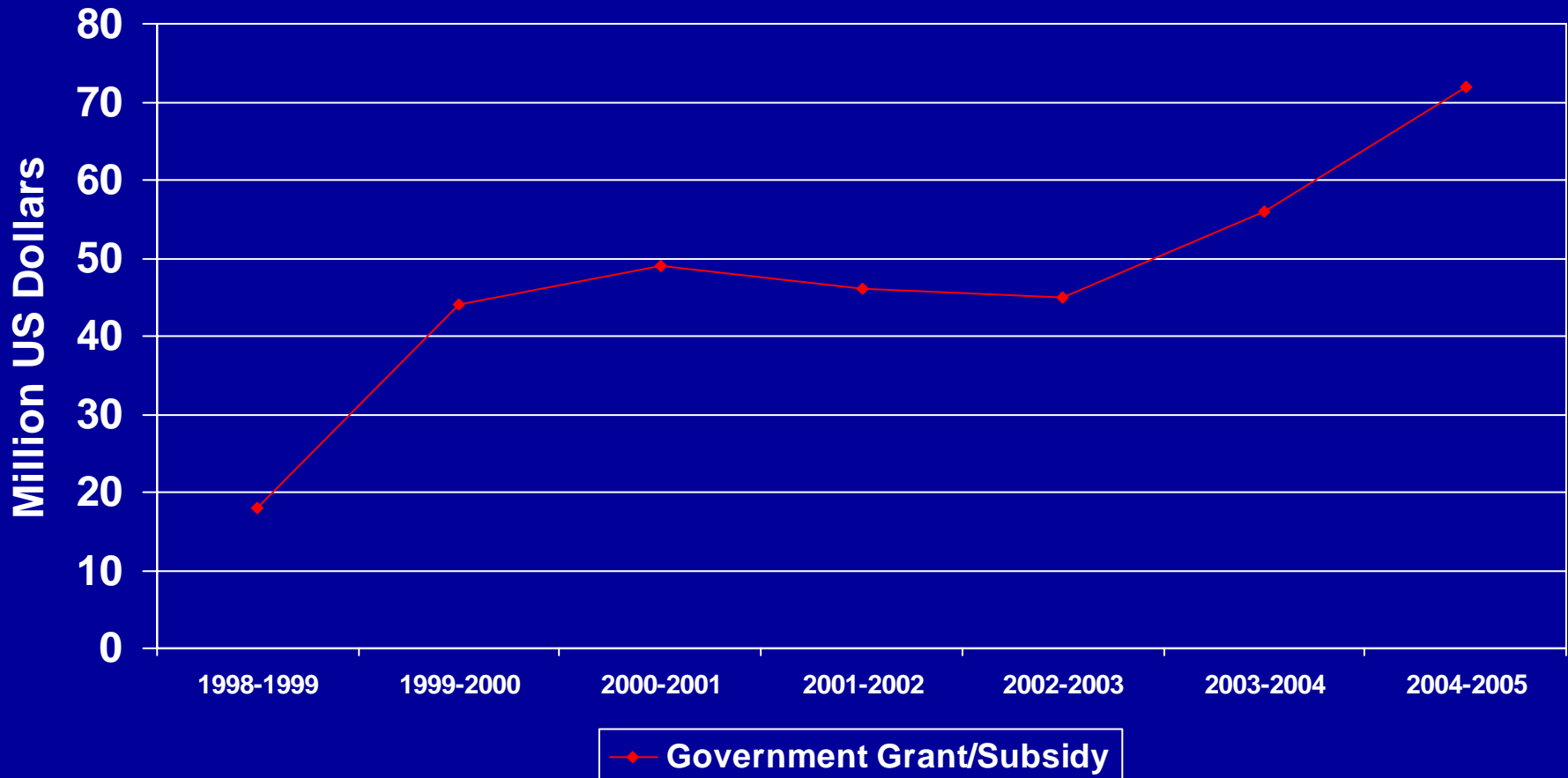


Bangladesh Enterprise Institute

Source: Monitoring Cell, Finance Division



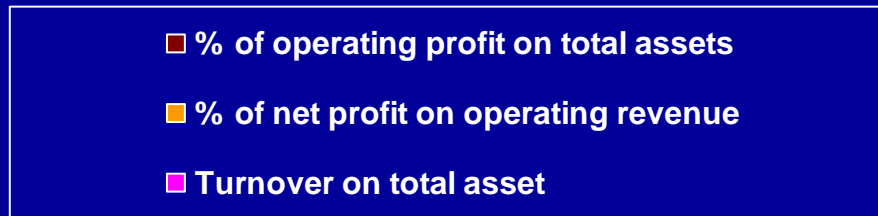
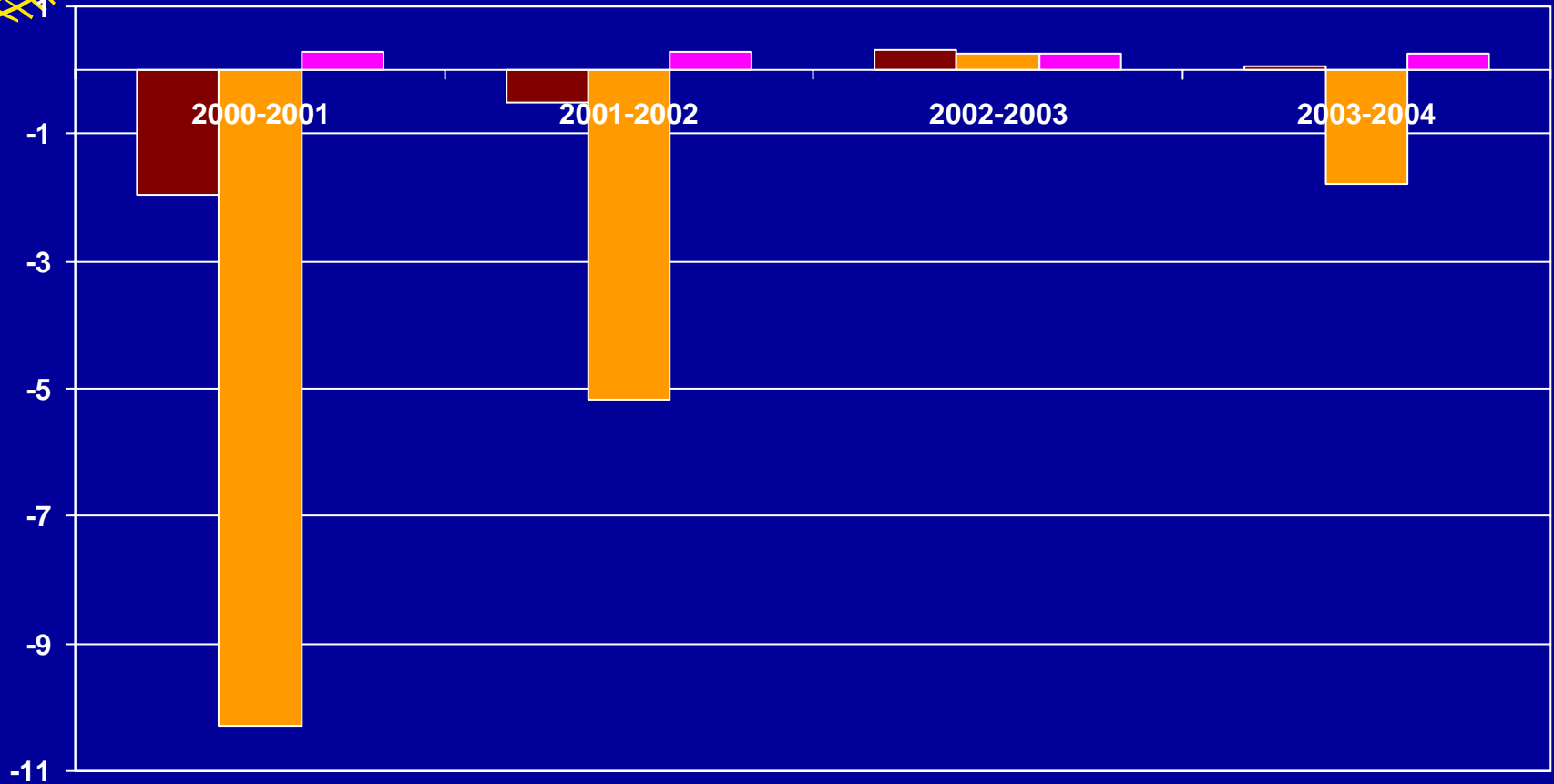
Government Grant Subsidy



Bangladesh Enterprise Institute

Source: Monitoring Cell, Finance Division

Financial Performance of SOEs



Bangladesh Enterprise Institute

Source: Monitoring Cell, Finance Division



Privatization Commission of Bangladesh

- Formed in 1993 as Privatization Board
- Earlier it was under the control of the Ministry of Planning
- Later on brought under the administrative jurisdiction of the Cabinet Division
- Reconstituted as a Commission through enactment of the Privatization Act, 2000
- Privatization Policy was also formulated and adopted by Government under the same act
- Currently it is directly attached with the Prime Minister's Office

Source : Privatization Commission of Bangladesh



Statistics of Privatization

- 66 SOEs have been privatized till March, 2005
- Of which 46 have been privatized through outright sale and 20 through sale of shares
- Letter of Intent (LOI) agreed between the privatization commission and buyers for 7 SOEs
- Government closed 24 SOEs during the year 2002 for expediting the privatization process.
- Government has decided to privatize another 81 SOEs of different sectors
- Government has also approved to transfer their share of 8 SOEs to competent private investors.

Source : Board of Investment, Bangladesh



Reforms for SOEs

- Privatization
 - lengthy transaction
 - bogged down by litigation
 - conflicts of interest by ministries
 - lack of manpower with the necessary skills and experience of the Commission
 - lack of proper analysis and evaluation



Reforms for SOEs

- Management Change
 - to prepare the entity for resale
 - has worked well for one of one NCB (Agrani Bank)
- Restructuring
 - on average 3 person for 1 job
 - Recently 2300 staff of BSFC given golden handshake
 - BSFIC has shown profit after 17 years
- Share offloading
 - government sells off the majority shares to the private sector

Challenges in Implementing CG Principles



- Boards role in vision and strategy
 - Lack of independent representation
 - Lack of power held by CEO
 - Absence of accountability structure of management to the board/shareholders
 - When the Board Chairman is also a Cabinet Minister there may be a tendency to treat the SOE as a Government department
- Commercial focus
 - Procedures are set and not easy to deviate from
 - Price controls are not market driven
 - Sometimes face unfair competition from the private sector



Challenges in Implementing CG Principles

- Accountability and Monitoring
 - Access to accurate information is difficult: management collusion with trade unions
 - Audits: Internal Audit, Government Commercial Audit, and External Audit
 - Commercial Audits results are doubtful, not transparent: need improvement
- Employee incentives
 - No genuine incentive for better performance
 - Quality people not attracted to SOEs
 - Pressure from trade unions