

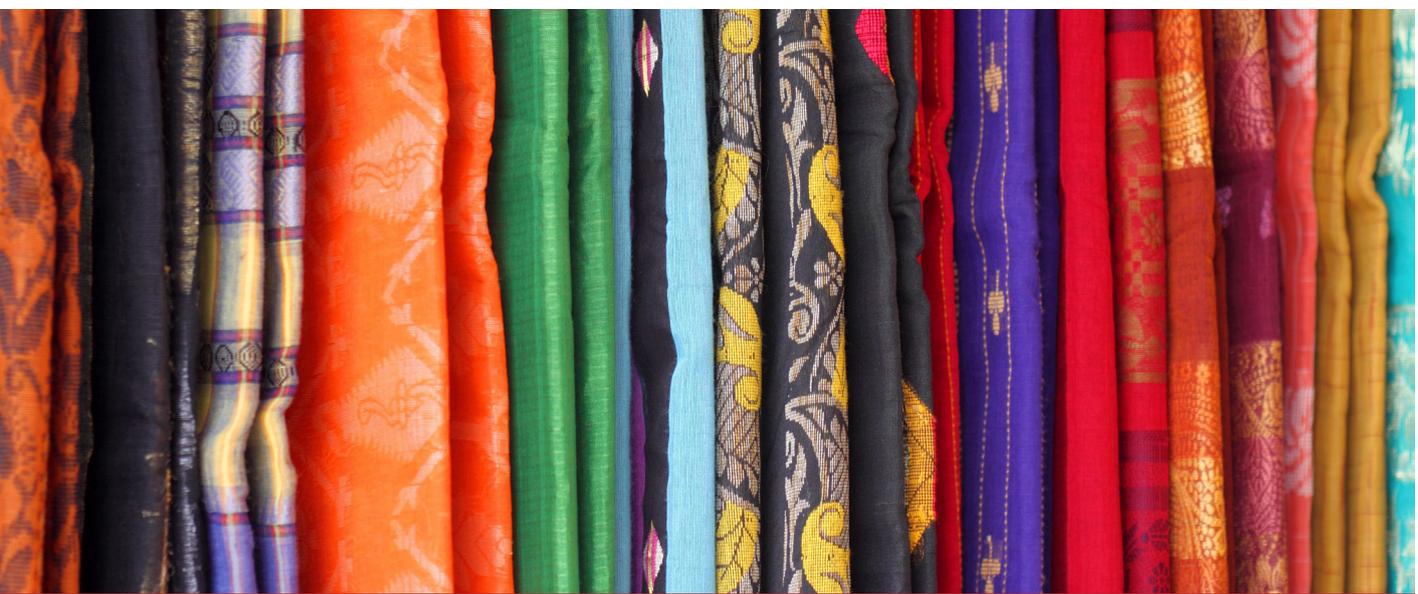
Making It Big in Bangladesh

How firms can win in Bangladesh



Bangladesh has been one of the emerging markets with promising potential in Asia. The consistent growth of the Bangladesh economy and the encouraging progress on socio-economic indicators, such as GDP growth and per capita income, make Bangladesh an attractive proposition. However, the challenges of doing business—for example, weak compliance standards, non-disclosure, and the unavailability of records and information—can make Bangladesh a complex place to negotiate and succeed in.

Kroll has been advising clients on Bangladesh for 20 years across most sectors and has a solid understanding of what firms need to succeed in a complex but promising market such as Bangladesh. Kroll has full-service operations with a deep intelligence and security network in Bangladesh. In this edition of Kroll's *Spotlight Asia*, Managing Directors Reshmi Khurana and Tarun Bhatia highlight some important factors for investors looking at Bangladesh—including some advantages, risks, challenges, and certain features of the country. Most importantly, Kroll believes that many businesses can stay ahead of the risk curve by preparing well for the challenges of the local market without compromising on global benchmarks.



Q&A Session

What makes Bangladesh a promising destination for present and future business? How has the investment climate changed in the past 12-18 months, after the 2014 elections?

RESHMI: Bangladesh has seen a relatively stable political environment over the last few years, which has been supported by a strong government, consistent economic growth, and a young and burgeoning middle class population. Foreign direct investments into Bangladesh have risen 27.19 percent year-on-year to \$1.45 billion in the July 2015–February 2016 period, according to the country’s central bank data^{1,2}. The average GDP growth is at 6.4 percent and the inflation rate came down to 6.1 percent at the end of March 2016 from almost a double-digit figure six years ago³. There is also a large untapped consumer market which is growing quickly alongside a young educated workforce that is eager to advance and be mobile. Such strong fundamentals arguably make Bangladesh a fast-emerging and attractive destination for foreign investment.

What are the long-term strengths that investors need to be aware about? Can you elaborate?

TARUN: I can outline a few areas that remain Bangladesh’s core strengths:

Large and dense population

The country has a population of over 160 million, with more than 1,200 people residing in every square kilometer⁴, making Bangladesh one of the most densely populated countries in the world. Such population density makes it easier for businesses to access consumers, markets, and resources. By comparison, the United Kingdom is 1.5 times larger in size, but has one-third the total population of Bangladesh.

Demographic dividend

The United Nations Population Fund (UNFPA) says young people in the age group of 10 and 24 years comprise 30 percent of the total population of Bangladesh, the world’s eighth most populous country⁵.

Language

Bengali or Bangla is the common language in Bangladesh, spoken by almost everyone in the country. It provides a common bridge for the entire population, including the business community.

Democracy

Except for a brief period, Bangladesh has been a democracy; the elected rule of the two major political parties, Awami League and Bangladesh Nationalist Party, over the last two decades has reduced chances of a coup taking place.

¹ <http://www.thedailystar.net/business/trade-deficit-narrows-imports-slow-1209970>

² <http://www.at-capital.com/dmu/3db7d380459c296bad81432f8d5c7027.pdf>

³ <http://www.thedailystar.net/business/bangladesh-poised-be-top-investment-destination-1215187>

⁴ https://www.thestar.com/news/world/2013/02/09/bangladesh_faces_mass_migration_loss_of_land_from_climate_change.html

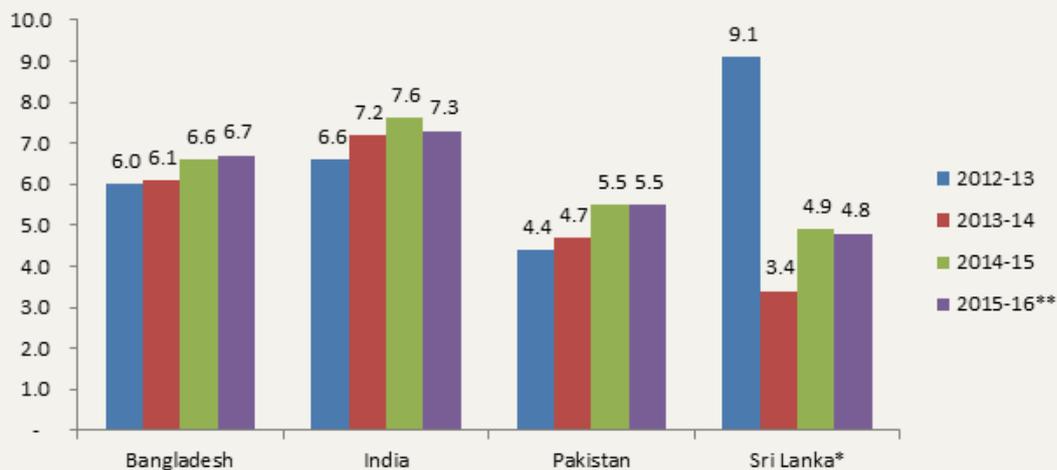
⁵ <http://bdnews24.com/bangladesh/2014/11/18/invest-in-the-young-unfpa>

Economy

Bangladesh has achieved an average annual economic growth rate of 6 percent in the last decade⁶ and is keeping pace with its peers in the region. Foreign investors consider this crucial to the country's larger macro-stability. A low but fast-growing GDP demonstrates progress and scope for further growth.

The country's vibrant economy is driven by consumption and exports. The services sector has been the largest contributor to the country's economy in this period, contributing more than 50 percent of the GDP, followed by the industrial and agriculture sectors. Bangladesh is the second largest apparel exporter in the world, just behind China. Textiles accounted for 80 percent of Bangladesh's total merchandise exports (approximately \$19 billion) in 2015.

GDP growth rate of leading South Asian economies (in percentages)



* Figures for Sri Lanka are for year ending December 2012, 2013, 2014 and 2015

** Estimates

Bangladesh has had its ups and downs politically. What makes you think it is now politically stable?

TARUN: The country is strategically nestled between India and South East Asia and is one of the youngest nations in the region. It had a tumultuous start after it achieved independence in 1971. The current government in Bangladesh (led by the Bangladesh Awami League or BAL, a "centre-left" party) won parliamentary elections in 2008 and 2014 and is expected to remain in power till 2019. Viewing Bangladesh in the context of its own history, many commentators believe that the country has moved into a stable political phase, which gives the government an opportunity to pursue a serious economic agenda, focusing on long-term growth and integrated development.

What are the key risks of doing business in Bangladesh?

RESHMI: There are several key risk areas which an investing firm needs to consider when looking at Bangladesh.

Impediments to doing business

The key challenges faced by many businesses include long processes for receiving approvals from government agencies, the non-enforcement of intellectual property (IP) rights, and a slow judicial process.

⁶ <http://www.thedailystar.net/op-ed/finance/six-percent-growth-trap-bangladesh-124753>

Corruption

In the Transparency International report titled “*Global Corruption Perception Index 2015*”⁷, Bangladesh shares 13th place on the list of most corrupt countries in the world, along with Guinea, Papua New Guinea, Kenya, Laos, and Uganda. Corruption is widely prevalent in the operational levels in Bangladesh, posing potentially significant challenges to many global firms which are bound to stringent anti-corruption laws, regulations, and policies, such as the Foreign Corrupt Practices Act and the UK Bribery Act.

Corporate governance

According to research by the International Finance Corporation (IFC), corporate governance standards in Bangladesh remain underdeveloped.⁸ Kroll understands that gaps in governance include lack of independent boards, conflicts of interest, political influence in businesses, and lack of disclosure of key information, such as details on financials and ultimate beneficial owners.

Security challenges

With incidences of attacks on several foreigners in 2015 and a recent attack in July 2016, the security challenges of doing business cannot be ignored, and investors must take note of the presence of terrorist groups in Bangladesh. While the general security situation in Bangladesh is considered stable, security risks have increased since the beginning of 2016. Firms need to obtain nuanced intelligence based on sound local knowledge so they can stay ahead of threats and risks. For example, some Western countries such as the United States and the United Kingdom issue travel advisories alerting citizens of possible attacks on foreigners in Bangladesh. Investors must take note of these advisories and also seek professional security advice and assistance before they plan their visits to Bangladesh. Kroll, on its part, has been consistently helping firms and travelers going to Bangladesh with process-driven detailed threat and risk assessments, using our local expertise and considerable experience in the area. Our input and advice has helped firms stay ahead of the risk curve. I must add that though Bangladesh witnesses fluctuating issues in its security environment, the risks can be managed through appropriate advice, timely preparation, anticipation, and due care.

What should investors keep in mind when investing in Bangladesh?

TARUN: Kroll believes that opportunities are likely to outweigh risks in Bangladesh. Investing companies can take advantage of the low cost of operations, a consistently growing market demand for goods and services, and the presence of a large employable, young local population. Firms should begin by understanding industry trends, doing their competitor analysis, and analyzing the potential effect of regulations.

In Kroll’s experience, understanding the local markets can help companies weigh the benefits of investment versus the risks of corruption, political uncertainties, and security issues. For instance, a prolonged workers’ agitation driven by poor working conditions threatened the garment sector in 2013 and disrupted work. At that time, it would have seemed that the sector was headed toward a longer crisis. However, introduction of labour reforms, including the emphasis on cleaner environment and safety compliance at manufacturing plants, helped address the differences and the garment industry has witnessed rapid growth since 2013. Despite recent terrorism concerns, with effective local input, exports increased by 14 percent in 2016 as compared to the previous year. Kroll’s continued engagement with projects in Bangladesh has enabled us to advise corporates in the evaluation of local opportunities and trends early on in the investment cycle, which in turn has helped clients arrive at a more effective and informed decision.

⁷ <http://www.thedailystar.net/country/bangladesh-ranked-13th-most-corrupted-country-208054>

⁸ www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/corporate+governance/news/events/bangladesh_rosco

Corporates also need to conduct a thorough business and reputational overview of their local partners before entering into business with them by employing a rigorous due diligence process. Public records may not reveal the true nature of the local partner's reputation, and litigation records are not electronically archived in Bangladesh, rendering them more difficult and time-consuming to obtain.

In addition, Kroll has noticed that some local firms are not consistent in filing financial returns. As such, it is critical that investing firms conduct corporate record checks and litigation checks, and also acquire information from local sources to understand the reputation, funding, potential political links, and business potential of local partners/employees. In our experience in Bangladesh, a good human resource network can help investors better understand the local market relationships and reputational issues rather than public record research alone.

Kroll uses a multipronged local network of "on the ground" sources to provide real-time intelligence to our clients on issues connected with corporate governance, facilitation payments, association with various stakeholders, and management styles. This enables the investing firm to be more aware and negotiate better terms and conditions with their potential local partners.

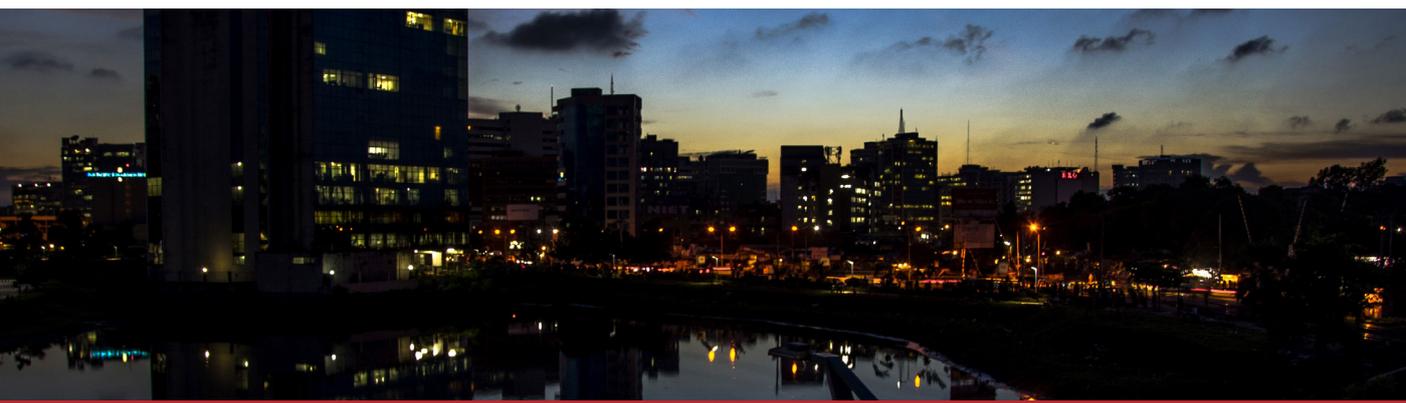
RESHMI: Once they have invested in the business, corporates will need to closely monitor financial performance through regular reviews. Corporates might need to also look more closely at issues such as siphoning of funds, conflict of interest involving their local partners, money laundering issues, and IP infringement issues, and check if there is a viable whistleblower channel in place as one method to detect any such issues.

Corporates will also need to understand whether their local partners are over-leveraged and the kind of political and business affiliations that they might have developed over time. In such scenarios, it's helpful to seek the services of global advisory firms such as Kroll, who are able to apply local intelligence in a global perspective, which can assist international investors.

What makes Kroll's services different in Bangladesh as compared to others?

RESHMI: Kroll has been working in Bangladesh for many years across different sectors. Kroll is able to go beyond market intelligence, media research, and public records. We are able to delve deeper because we have the advantage of a solid network in Bangladesh. Combining and leveraging our core skills of delivering tailored business risk services to corporates, we enable our clients to make an informed business decision on who could be sitting either in Dhaka or in their global office.

TARUN: At Kroll, we help our clients understand the opportunities and risks in a complex region in order to help them better evaluate and protect their interests. Bangladesh has witnessed rapid political and social change in a very short time. These changes can range from regulatory modifications to judicial decisions concerning politicians and local businessmen, which can impact the local environment and affect business decisions. Investing firms need to continuously anticipate, monitor, and respond to these changes. Kroll has helped corporates actively monitor political developments and anticipate changing security situations. We have advised firms to take necessary timely steps to help mitigate and stay ahead of the risk curve at all stages of their business cycles in Bangladesh, which includes pre- and post-investment requirements.



Kroll's View on Sunrise Sectors in Bangladesh

Sector	Potential
Consumer-driven sectors, such as Pharma, FMCG, and Retail	<p>A population of 160 million, 30 percent of which is in the 10-24 age bracket, along with an estimated 20 million in the middle class band, presents tremendous potential for a sustained consumer base in the long run.</p> <p>There is also an increasing pool of employable workers in the country, which presents opportunities for growth for the back-end operations for companies.</p>
Banking and Finance	<p>Microfinance institutions have progressed in the country. The banking sector is well represented with bank credit to GDP at 48 percent. There are opportunities across retail, capital markets, and the insurance sector.</p>
Communication and Telecom	<p>The large middle class population has helped in mobile penetration, with 88 percent of the total population having mobile connections. There is also available scope for growth in the spectrum, as internet data consumption remains low and the telecom network is predominantly on 2G services.</p>
Textile and Readymade Garments	<p>The garment sector has registered consistent growth. Bangladesh is the second largest exporter of apparel in the world. The minimum monthly wage for garment workers in 2015 in Bangladesh is USD 68, compared with about USD 280 in mainland China.</p> <p>Such comparably low wages arguably makes Bangladesh attractive to the manufacturing sector. There are, however, challenges around health, safety, and compliance of corporates in this sector, which investors need to carefully evaluate.</p>
Infrastructure	<p>Bangladesh is planning on special economic zones that will have special SOPs for investing firms, which include ease of doing business. There is also potential for exploration in the Bay of Bengal after Bangladesh was awarded the maritime area in 2014 by the United Nations.</p> <p>There is room for improvement of infrastructure across the country. Poor conditions of roads, ports, and airports in the country slow down delivery, increase costs, and affect efficiency of services.</p>

Kroll Experience in Bangladesh

The following are representative examples of Kroll's extensive experience helping clients succeed in Bangladesh.

Case 1

Kroll was approached by a global bank who was keen to partner with local Bangladeshi banks. The engagement comprised a benchmarking exercise of a group of banks. The global bank was concerned with the local banks' corporate governance standards, particularly the links between politicians and promoters of potential investee companies.

Kroll was able to ascertain that the subject company maintained relatively robust corporate governance standards, though the promoters maintained political connections with intertwining commercial footprints domestically and abroad.

Case 2

Kroll was approached by a global manufacturing company, who suspected that its former business partner in Bangladesh had committed intellectual property (IP) infringement. The former local business partner based in Bangladesh continued to use the client's intellectual property, such as logo and name, to market its products in Bangladesh long after the association between the client and the local partner had expired.

Kroll used extensive local sector and market resources to identify credible and crucial intelligence on the alleged IP infringement and gather evidence.

Case 3

Kroll worked on an extensive review and remediation of the anti-money laundering (AML) program for a leading financial institution in Bangladesh. We assisted the bank in upgrading its AML standards and procedures in line with global best practices. We carried out an in-depth AML review of the bank, its processes, and on-the-ground activities so as to develop a comprehensive gap analysis of the state of AML at the bank in comparison to organizational, local, and global standards. This gap analysis was achieved through data assessments, in-depth interviews, process walkthroughs, branch and office visits, and document and information reviews. We used multiple sources of data, analytics, and discussion insights to further validate the gaps.

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