Bangladesh banks eye FDI boost for infrastructure

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Its central bank has done much to help the domestic banking sector develop and is taking further steps in areas such as capital markets and attracting foreign investment.


Reaz Islam, CEO of Dhaka-based LR Bangladesh Asset Management

Bangladesh is under-banked with respect to domestic and foreign investors and institutions, something its central bank is seeking to remedy, particularly for infrastructure finance.

Bangladesh Bank recently took steps to incentivise banks to move into under-banked areas. But the country's growth trajectory has been such that financial institutions still lack sufficient resources, both from a human resources and technology point of view.

The point was made at *AsianInvestor*'s and *FinanceAsia*'s inaugural Bangladesh Investment summit in Singapore this week by Reaz Islam, chief executive of Dhaka-based LR Bangladesh Asset Management, part of LR Global Partners.

There's substantial opportunity for the country's 47 banks, but entering new areas is not cheap, noted Islam, whose firm invests largely in listed equities. Moreover, domestic firms lack the international capabilities and client networks of global groups with a local presence such as Citi and Standard Chartered.

Nonetheless, said Mahmood Sattar, CEO of Bangladesh-based The City Bank, they could provide advisory services to give foreign investors some comfort that the country has regulation and process and offers a safe exit from deals.

This suggests consolidation might be on the cards, something the central bank recognised when it published the guidelines for mergers for financial institutions, noted Shahwar Nizam, Bangladesh country partner of law firm DFDL.

The regulation in this area is not as extensive as in developed markets, he added, but the central bank is making a real effort to improve, and the existing rules are transparent and sufficient for the domestic market.

But while Bangladesh Bank has put a framework in place, it did not plan to “overtly encourage consolidation”, said Hassan Zaman, chief economist at the central bank. That is something for the market itself to drive.

Where the bank is making moves is in developing services in areas it would like to see a greater banking presence. One is infrastructure finance, noted Zaman, who wants to see more institutions in place to facilitate foreign direct investment, including Singaporean banks that have set up in countries neighbouring Bangladesh. “We don’t really see that so much here yet,” he noted.

Zaman noted there were no barriers to entry as long as firms meet “fit and proper” requirements. Regulators will carry out rigorous due diligence, but welcome foreign banks seeking to put operations on the ground, he said, adding there was plenty of room for more competition.

Panelist James McCabe, CEO at Standard Chartered Bank (Bangladesh), said the central bank was doing a fantastic job improving the regulatory framework for banks and upgrading the quality of the system itself, reflecting a view from many conference speakers.

He added he would strongly support a fully independent and transparent central bank, a situation that is not far away from being realised. “And that will only help the industry,” said McCabe.

Sattar, too, praised the central bank, applauding how it balances bringing in new laws with training on existing ones.

However, one delegate from the floor said there were substantial restrictions on the flow of payments for services coming out of the country and he hoped this issue would be addressed.

Hassan conceded this was something Bangladesh Bank had heard from both domestic and foreign players. “We have significantly liberalised regulations on FX transactions,” he noted, pointing out that a major review was coming up.

So how attractive are Bangladeshi banks as investment propositions? The regulatory regime has been “very proactive and progressive”, said LR Global’s Islam, but more development in terms of human resources and technology are needed to cope with industry growth.

He also cautioned that, as in any market, there were “good, bad and ugly” opportunities among the 30 listed banks, so “you’ve got to be careful”.

In terms of foreign investment, Islam said it was not so much needed in domestic stocks, rather into “long-term sustainable markets” such as infrastructure. And the bigger privately owned banks with a local presence – particularly foreign firms – had a responsibility to work with international players to do what they can to encourage more FDI.

In terms of foreign investment for medium to long-term development, there is less demand for allocation to local stocks, Islam says. Rather, priority should be given to “long-term sustainable projects”, such as infrastructure.

And the bigger privately owned banks – particularly the foreign firms – have a “major responsibility” to work with international players to do what they can to encourage more such FDI. The stock market will mature and be more vibrant in due course, he adds.

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