

BCC FOUNDATION : BACKGROUND, ROLE AND FUTURE

BCC Foundation was established in 1983 under the laws of Bangladesh and within the jurisdiction of the Department of Social Welfare as an independent, Non-Government Organization (NGO). The Foundation describes its purpose as a non-profit, charitable institution dedicated to the service of humanity.

The BCC Foundation is managed by its Board of Directors which is composed of twelve members including several well-known representatives of Bangladesh society. The capital funds of the Foundation are provided entirely from contributions by the Bank of Credit and Commerce International (Overseas) Ltd. (BCC).

BCC is an international bank that operates in 72 countries including all the major financial markets of the world. Yet, the focus of BCC's attention has always been the developing world where the need for banking of international standards is matched by the requirement of a fundamental commitment to the future of the country of operation. This commitment is consistent with BCC's belief in the unity of the Moral and the Material in its operations. Thus, while excellence and the quality of assets is a natural concern, the ultimate objective is submission to God, Service to Humanity and Giving.

BCC Foundation is an initial outcome of this belief and of BCC's commitment to Bangladesh. The objective of providing the Foundation with a substantial base of capital funds was to enable the Foundation to become a self-sufficient citizen of Bangladesh dedicated to the purpose of serving the people and the economy of the Country.

The implementation of this PURPOSE has both static and dynamic dimensions. In static terms, the funds at the disposal of the foundation are channelled towards providing relief to deserving

individuals or groups in Bangladesh society. The importance of this role is not minimized for, especially in situations of emergency, direct and immediate relief is a most effective utilization of funds available. Nevertheless, over the long term, the "relief" aspect of the Foundation's activities has limited impact.

Serving the society and economy of Bangladesh must therefore be viewed in a more dynamic context. The capital available to the Foundation is a scarce resource which can be more effective if channelled into the economy in projects that would have long term impact on growth and equity. Thus, since its inception, BCC Foundation has sponsored programmes such as a Talent Assistance Scheme for deserving students throughout the Country, a rehabilitation programme for blind children, the Glaucoma Research Project of the Islamic Eye Hospital, and the Rural Mass Education in Science Programme of the Centre for Mass Education in Science.

It is in the context of participating in the society and economy of Bangladesh as a catalyst for development that the BCC Foundation proposes to establish a bank incorporated locally in the Country. This proposal is being made in the belief that efficient financial institutions committed to the objective of growth are vital for a developing economy. Growth depends substantially on the ability of a Country's institutions to mobilize savings and then to efficiently invest and manage the new capital. BCC Foundation believes that with the capital and other resources available to it, it can assist in the establishment of one such institution.

As implied in the previous paragraph, the proposal to invest in a bank emerges also from the desire to make optimal utilization of resources other than capital that are available to the Foundation. For instance, one of the deterrents to progress in a developing country is lack of good management.

In many cases, however, managerial weaknesses are explained in part by the shortage of experienced and well trained people. Through BCC's worldwide network, the Foundation has at its disposal an international pool of professionally trained bankers who would be available to provide the expertise, and, in the shortest possible time, transfer the expertise to the managers of the locally incorporated bank for further multiplier effects down the years. The Foundation therefore believes that the capital available to it would be optimally leveraged by the utilization of this additional vital resource.

The Foundation will, of course, continue to provide direct assistance to the deserving segments of Bangladesh society and, in addition, continue to look for other possibilities for investing in projects which could have deep multiplier effects toward the growth of Bangladesh society. The dividends from profits generated by the proposed Bank shall be utilized entirely for such activities.

THE PROPOSED BANK

A. Basic Philosophy

The fundamental philosophy of the proposed Bank emerges from the Foundation's desire to respond to the underlying needs of the economy. The critical need of the Bangladesh economy is development and the basic objectives of development are the removal of poverty, promotion of growth and the reduction of inequalities in income. The Foundation believes that, first, by efficiently mobilizing capital resources and, then, by directing these resources to selected segments of the economy, a commercial bank can play a vital role in the achievement of these objectives.

Guided by these desires and beliefs, the proposed Bank shall utilize the capital and management resources available to itself, and which it can further generate, to evaluate, promote, and finance SMALL-SCALE INDUSTRIAL PROJECTS in Bangladesh. Indeed, the Bank shall play a proactive role in this process by creating an infrastructure which will encourage entrepreneurship guided by professionalism and the ability to understand and manage risk.

At the same time, in order to protect its own health as a pre-requisite for the role stated above, the Bank shall ensure that it operates on commercial principles. This would mean that the Bank shall endeavour to improve upon its capital base by making a profit from year to year. Since the financing of small scale development projects imposes inherent constraints in this respect, the Bank shall be fully involved in traditional commercial banking activities which are likely to yield a more commercially justifiable return on the resources employed.

B. Ownership Structure and Capital Investment

The proposed Bank is sponsored principally by the BCC Foundation. The Government of Bangladesh shall be invited to participate as an owner in ___% of the Bank's share capital. If the Government kindly agrees to accept this offer, the Bank will have two shareholders; otherwise BCC Foundation shall be the sole shareholder of the proposed Bank.

It is felt that the Bank should be adequately capitalised from the outset and, further, that provision should be maintained to multiply the capital base of the Bank with the issuance of additional shares to meet expansion needs. The authorized share capital of the Bank is therefore proposed to be Taka 25.0 crores while the initial paid-up capital shall be Take 8.0 crores. It is felt that this initial paid-up amount will provide sufficient capital to meet with the Bank's requirements for the first few years of operation.

Assuming that the Government of Bangladesh agrees to participate as a shareholder, the capital structure of the Bank subsequent to the initial subscription of shares shall be as below :

<u>Shareholder</u>	<u>Amount in crores (Takas)</u>	<u>Amount of Share Capital</u>
Government of Bangladesh	A	X
BCC Foundation	B	Y
TOTAL	<u>8.0</u> ===	<u>100.0</u> =====

C. Proposed Services/Lines of Business

As a commercial bank with a special purpose in the development of the Bangladesh economy, the proposed Bank will be allowed to operate without restrictions in all areas of banking subject to the laws of Bangladesh. The Bank will, thus, engage in the following activities :

1. Provide project-related investment and financial advisory services principally to projects in the small scale sector. Small scale projects are currently defined under the New Industrial Policy (NIP) of 1982 as those with an aggregate investment outlay of Taka 150.0 lakhs, or less. In providing such services, the Bank shall endeavour to work closely with the Bangladesh Small and Cottage Industries Corporation especially with a view to improving links between planning, budgeting and evaluation.
2. Grant term loans to commercially viable and economically attractive projects bearing in mind the development objectives of the Country. In evaluating project financing proposals, therefore, the Bank's analysts shall take into account the distributional effects of the project on consumption and investment. Furthermore, project-generated income that leads to investment shall be assigned a higher priority than that which leads to consumption. In this fashion, use of investment resources will be biased in favour of projects that generate more investment, thereby raising national investment towards the desired level.

The objective of income distribution shall also be taken into account by investigating the impact of projects not only on the distribution of income between consumption and investment but also on the distribution of income between the rich and the economically depressed segments of the society.

Likewise, attempts will be made to estimate and quantify externalities and linkage effects of the projects being evaluated.

3. Grant short term loans, advances, overdrafts and other credit facilities to individuals, banks, and other corporations in Takas or in foreign currency under the guidelines laid down by the Bangladesh Bank.
4. Trade finance, especially the issuance of commercial letters of credit on sight and usance basis and the refinancing of such letters-of-credit by way of trust receipts, bankers acceptances, or other instruments as permitted under the laws of Bangladesh. There shall be no restrictions on the types of clients to whom such services could be provided.
5. Deposit-taking from individuals, corporations, and government entities in the form of demand deposits and time deposits in Bangladesh Takas or in convertible foreign currency under the Wage Earners Scheme (WES) or any other schemes permitted under Exchange Control Rules of the Government of Bangladesh.
6. Dealing in foreign exchange directly or on behalf of clients as permitted under the laws of Bangladesh.
7. Providing remittances, guarantees, and other facilities to the Bank's clients.

D. Proposed Service Area

The Bank's head office shall be located in Dhaka. However, the Bank's services will be provided throughout the nation through a network of upto twenty-five fully equipped branches.

E. Directors and Management Structure

The Bank's operating policies will be determined by a Board of Directors composed of at least seven members. Five of the Directors will be nominated by BCC Foundation. The Government of Bangladesh will be requested to nominate the other two directors to the Bank's Board. Day-to-day management of the Bank will be in the hands of the Managing Director -- assisted by a high calibre management team of banking professionals. The Managing Director shall report to the Board on a periodic basis.

In order to ensure that the basic objectives of the Bank are reflected in the management of the institution, the proposed Bank shall enter into a perpetual management contract with the Bank of Credit and Commerce International. Apart from providing professional and efficient day-to-day management to the proposed Bank, this relationship will also ensure that the Bank continues to benefit from the international network and expertise available with BCC. The availability of this expertise will be vital in implementing the development objectives of the Bank while simultaneously protecting its commercial viability.

Since it would be an innovative, specialized and a sort of development Bank, the proposed Bank expects to get all support of the government and it will not be subjected to the embargo on handling government business. Further the portion of profit of the Bank pertaining to the share of BCC Foundation will not be subjected to Income Tax since the same will be for charitable purpose.