

When regulatory intervention does more harm than good

AHSAN HABIB

A decade ago, a verbal directive from the regulator to stop the practice of forced-sale hit the stock market hard and the impacts are still being felt these days.

Similarly, the floor price setting put in place in the wake of the coronavirus pandemic has almost been doing the same, analysts say.

"Regulatory intervention to save the stock market index is quite unexpected. If they try to do it, the market gets hurt. It was proved in case of stopping the forced-sale," said a top official of an asset management company.

The Bangladesh Securities and Exchange Commission (BSEC) intervened in 2011 in a bid to prevent the forced-sale by stock brokers and merchant banks.

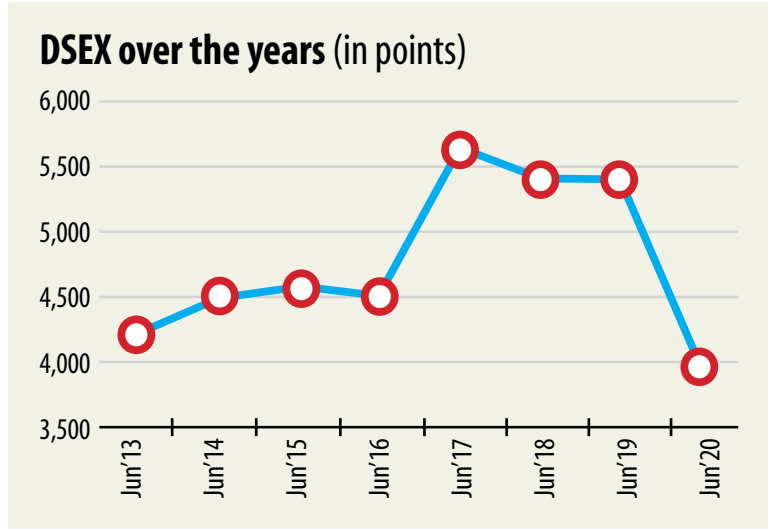
It came after most of the stock brokers and merchant bankers provided margin loans to general investors to buy stocks during the bullish market in 2010.

When the market started to plunge, the brokers and merchant bankers started to sell the stocks from the investors' account to adjust the credit as the borrowers failed to repay loans. The practice is called forced-sale.

Almost all the general investors along with the regulator stopped the lenders from doing so, assuming the action would hasten slump and investors would incur losses.

"The consequences of deterring the forced-sale were so devastating that we were scared to execute forced-sales," said a merchant banker, adding that the regulator could not refrain the index from falling.

As the shares bought through the margin loans were not sold and the



prices collapsed, most investors did not receive any penny back from their investment, he said.

Brokers and merchant bankers have still been suffering from the losses stemming from the margin loans although a decade has passed since then.

The loss from the margin loans was more than Tk 11,100 crore. Some brokers and merchant bankers booked their loss and some others are yet to follow suit.

The institutional investors still can't invest in the market because of the losses, said the merchant banker.

Curbing the forced-sale was an example of breaches of laws and general norms of the world stock market and it was deadly for the market though it looked good initially, said a stock broker.

In the same way, the floor price would be another cause for a big blow for the market in the upcoming days, he added.

The BSEC set the floor price on

March 19 with a view to stopping the index from plummeting further amid the pandemic, bypassing the forces of the market.

On the day, the commission put in place the floor price of all stocks taking into account the last five-days average price. This would be the lowest price until the provision is scrapped.

"When you obstruct the free movement of the stock price determined by the market forces, the market would definitely go down. We witnessed it in case of margin loans," said the stock broker.

The newly appointed commission is convinced that the floor price should be scrapped but it fears that there might be protests from investors as they don't realise the outcomes of the floor price.

The floor price would affect the small investors most. Big investors can trade stocks on the block market but small cannot, said a top official of an asset management company.

"It is seriously eroding the confidence of foreign investors as well because they always prefer a liquid market. But the floor price has made the market illiquid."

The average turnover at the Dhaka Stock Exchange fell to Tk 60 crore after the floor price was introduced, way down from Tk 450 crore before the policy intervention.

"The image of the market has been tarnished globally and international investors would not want to invest in the market in the future."

A similar initiative was taken by the Karachi Stock Exchange (KSE) in Pakistan during the global financial crisis of 2007-08 in order to halt a sharp fall in its market index. After the floor price system was scrapped, securities declined significantly.

"It is proven that the floor price is not effective the way the government thinks of it," an asset manager said.

If the floor price lingers, most of the brokers and merchant banks will be compelled to cut salaries and jobs of their staff and shut branches amid thin trading activities, said another stock broker.

"You can't keep a stock price at a certain level artificially. If you try to do so, it would spook investors' confidence and sow the seed for a market crash," he said.

The market has been falling around the world due to the pandemic and this is normal as the profits of listed companies are set to decline in the current year in the most sectors because of the collapse in demand.

"However, the index would rebound on its own when the pandemic peters out. So, the regulator's intervention in price mechanism is totally unexpected."

Omera gets \$20m from IFC to meet funding needs

STAR BUSINESS REPORT

The International Finance Corporation will lend \$20 million to Omera Petroleum in order to help the Bangladeshi company meet funding requirements to face the challenges posed by the coronavirus pandemic.

The funding will help Omera, a subsidiary of Mobil Jamuna Bangladesh, enhance storage and filling capacity and overcome challenges resulting from the ongoing limited access to foreign currency.

The loan's tenure is four years and it will be paid back on a quarterly basis by Omera, which has been engaged in import, storage, bottling and distribution of liquefied petroleum gas (LPG) since 2015.

"The IFC's support will help us respond to the challenges resulting from the Covid-19 pandemic and it will allow us to finance foreign currency liability for LPG import," said Md Akter H Sannamat, chief financial officer of Omera.

The interest rate is attractive and preferential, he said.



"Our transparency, compliance, good governance, performance, efficient board and quality of the product and services helped us get the loan from the IFC."

It is the second loan from the IFC, the private sector lending arm of the World Bank, disbursed through its Covid-19 fast-track financing support package.

The Washington-based financial institution announced a \$8 billion global fast-track financing package in March to support business activity and preserve jobs in the face of the coronavirus outbreak.

In 2018, the IFC invested \$20 million as a long-term loan in Omera Petroleum to help the company double its capacity and increase the

availability of LPG, especially in rural areas. The loan was for five years.

The Omera has a plan to raise Tk 238.43 crore from the stock market as well to expand its LPG business.

It has already completed its road show to go public. It will purchase an ocean-going vessel with a capacity of 4,000 tonnes of LPG with the proceeds of the IPO. Tk 46.75 crore will be spent to repay bank loans.

Omera conducts its business activities through four LPG plants located in Ghorashal, Mirsharai, Bogura and main terminal in Mongla.

Its current storage capacity is almost 10,000 tonnes with a bottling capacity of 60,000 cylinders per day.

Supply chain to help revive battered economy



MOHAMMAD RASHEDUL ALAM

The novel coronavirus originated in China, the global supply chain hub, in late December and has since rapidly spread to all corners of the world, affecting hundreds of thousands of people and imposing significant economic implications.

Bangladesh, a growing economy in South Asia, is no exception and has been highly affected by the Covid-19 outbreak. The pandemic put Bangladeshi companies in a serious crisis and stopped the supply chain flow both domestically and internationally.

As we are in the age of globalisation, the world's supply chain has become substantially more interconnected. Moreover, as emerging market economies have steadily come to account for a greater proportion of global GDP, goods often have more stages to pass through before reaching the end consumer.

From national lockdowns to closed airspace and borders, the Covid-19 pandemic has resulted in an unprecedented disruption of the

supply chain for the mechanics of most economies, regardless of their size or stage of development.

In these circumstances and in the days to come, the supply chain has a big role to play in shaping our new lifestyle and getting our economy back on track.

On March 7, the first coronavirus infection in Bangladesh was detected but since then, the number of cases has risen at an alarming rate. The pandemic has had a significant impact on public health and overall economy of the country.

Bangladesh exports, which is mainly dependent on the garment sector (92 per cent), was dented by the situation and to make matters worse, most of the buyers in Europe and North American countries are either halting or cancelling their orders.

It has been reported that the garment sector was slapped with work order cancellations worth about \$3 billion so far. This also poses a huge threat to the garment ecosystem.

The backward linkage industries like yarn, fabric, dying and washing and forward linkage industries like banks, insurance, ports, and hotels are also impacted.

As Covid-19 continues to spread worldwide, the entire global economy has been halted, which gives a clear indication to expect a bigger fall in remittance flow with the return of migrant workers in the coming days.

This may significantly impact our economic growth in the near future as well.

On the other side, the crisis might create new opportunities for countries like Brazil, Mexico and certain emerging markets in South-East Asia. It has been predicted that China will be less the 'Factory of the World' after the pandemic.

The reasons why factories could possibly be shifted away from china are numerous.

First, it is because of the widespread shutdown of the factories in China in February and March and mass spread of the virus around the world and its consequences.

Second, the US-China trade war, which already pushed some of companies to move their factories elsewhere and more companies to follow suit after the bailout policy and grant set by the US government for post-Covid-19 pandemic recovery.

Third, recently lawmakers of eight developed countries formed a new alliance to counter China and in the long run, it will accelerate the shift of companies from China to other countries.

US-origin companies are planning to realign their supply chain to closer countries like Mexico and Brazil to mitigate future risk while also diversifying their source to establish supply chain networks in ASEAN countries.

Companies originating from Japan and South Korean are also looking to move their factories from China to set up alternatives in South-East Asian countries.

Fourth, new export potential has

been unlocked in the Chinese market.

Starting from July 1, as many as 8,256 Bangladeshi products will get zero tariff facility in the Chinese market. The zero-duty benefit amid the pandemic is expected to bring in new opportunities for Bangladeshi exporters and businesses.

Bangladesh, with its stable economic growth, continuous development in electricity, communications and infrastructural sectors, advantageous geographic location, upcoming economic zones near sea and airports and a youthful population can make the country a very attractive place to relocate.

As the world supply chain is in crisis and offering new opportunities for the developing countries, the supply chain has a big role to play in overcoming the crisis.

The basic fundamentals of the supply chain are to bring smoothness of deliveries and having a wide range of efficient and diversified cost-efficient sourcing along with reduced lead time. These core practices build a chain that leads to manufacturing and delivering excellence.

Through practising core supply chain principles like proper planning, diversified sourcing, which largely means not being limited to a single country, reducing costs and improving savings over the years will help companies overcome the challenges of the coronavirus fallout.

It has been predicted that the practice of the supply chain may be different in the post-pandemic era.

The supply chain practices may change from 'just in time' to 'just in case' with goods being produced where most of the consumers are. There will also be more efficient labour cost and creation of more resilience, which itself is expensive.

Keeping the predictions in mind, companies can plan as per their needs and follow the supply chain's upcoming trends to grab new opportunities.

To keep up with the changes in the post-pandemic era and grab new opportunities, the government has a significant role to play.

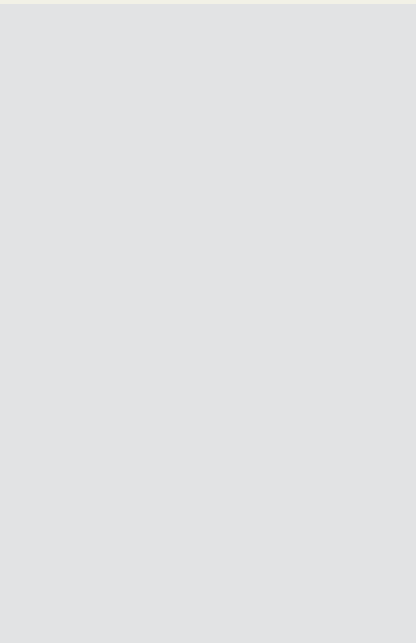
First, the government should form a committee, comprising experts, corporate representatives, business leaders, educationalists, social media influencers, law enforcement representatives and health experts to sense the upcoming opportunities and design strategies.

Second, Bangladesh's foreign missions can play an active role to promote the country the respective country's business community and, if required, they can also hire lobbyists.

Third, to continuously communicate with the companies who are planning to shift their factories and make investment-friendly package deals for the next 5-10 years will give cost-efficiency and savings.

Fourth, to attract investors', the government may declare tax leniency and suitable bankruptcy and recovery policies.

Fifth, making investment-friendly



policies and less administrative procedures will allow companies to easily move goods and services.

Sixth, developing other attributes like land and economic zones apart from focusing only on efficient labour will help investors make long-term shift in the entire manufacturing unit and end-to-end supply chain.

Seventh, there should be more focus on resource skill development programmes.

The world of business is changing and the Covid-19 pandemic has brought a huge change not only in our ways of living but the entire cycle of the supply chain.

Although the issue started through the trade war between two economic giants of the world, the pandemic is adding an entirely different dynamic to it.

As we can only hear news about crisis, loss and uncertainties, we should not be hopeless as every crisis creates opportunities.

It is time for us to understand the magnitude of the impact of the upcoming changes in the global business and the role of the supply chain in recovering from the crisis.

It is time for us to achieve supply chain excellence through which we will attract investments and achieve glorious economic growth in the future.

The author is head of supply chain and procurement at bKash