It is encouraging to see that the capital market of Bangladesh is growing, albeit at a slower pace than many would like, with market development still at a nascent stage. The market has seen a lot of developments since the inception of the Securities and Exchange Commission (SEC) in 1993. After the bubble burst of 1996, the capital market has attracted a lot more attention, importance and awareness, that has led to the infrastructure we have in the market today.

Reasons behind the underdevelopment

Access to high quality and credible corporate information remains a major problem in the market. While a handful of institutional investors may enjoy certain benefits since they have an investment unit manned with qualified officers, nothing exists for retail investors. And, in the absence of independent research houses, retail investors primarily focus on advice given by their brokers, which often consists of market rumours. This is not acceptable, and it often leads to enormous losses for small investors who are vital for a low-income and emerging market like Bangladesh. Filtering of information among different types of investors may leave scope for manipulation; this assumption had been proved right in the 1996 market meltdown at the cost of many individuals and households.

The market does not have an adequate number of fundamentally sound scrips. The authorities should not force major corporations to come into the market, without creating an enabling environment. The focus should be on the privatisation of state owned enterprises through public offerings in the bourses. The market has to reach such a stage of development that companies will take it as a serious alternative to bank financing.

The government has reduced the interest rates on savings instruments, however this particular market is still limited to the commercial banks, and individual investors do not have access to these instruments. These savings instruments are considered risk-free, and since they are not present in the capital market, the overall risk of investment for an investor remains very high. A portfolio investor does not have the option of reducing his average portfolio risk by adding these risk-free opportunities.

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An estimate suggests that the ratio of institutional-to-retail investors is still low in Bangladesh, even relative to other emerging markets. Institutional investors bring long-term commitment and a greater focus on fundamentals and, hence, stability in the market. The presence of institutional investors is also expected to ensure better valuation levels due to their specialised analytical skills. While we do have public sector as well as private sector institutional investors in the economy, proprietary investment from these institutions is not significant -- other than the Investment Corporation of Bangladesh that was created in 1976 and currently manages several mutual funds.

Corporate governance of international standard is still lacking. Multinational corporations and institutions operating in Bangladesh often adhere to a very high international standard compliance regime. Parent companies of most of these corporations and institutions have their scrips listed in developed markets. Unless the local market adheres to, and effectively enforces, a standard corporate governance system, there will not be a level-playing ground for international business houses vis-a-vis local operators.

An important aspect for capital market is reflection of fair value of scrips. This is not adequately present in the current scenario, and due to this reason the market is not receiving the attention of an important segment of investors, both foreign and local. Investors are perhaps depending more on speculative analysis, resulting in volatility in the market, as opposed to fundamental analysis, which could attract more stable long-term investors who are sure about their investment tenure and expectations.

1996 and now

The bull-run that took place in 1996 has left a number of positives for the market. A lot of investment-friendly regulatory reforms have been implemented by the SEC. We now have stronger surveillance and improved rules relating to public issue, rights issue, acquisition, mergers and so on. All these fundamental developments, which were well overdue, followed the 1996 bull-run. It was a learning experience for Bangladesh, and the desired level of changes was initiated by the market watchdog subsequently.

In the secondary market,