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Submission of wealth statements

The commitment should be implemented this time

THE finance minister has once again spoken about making public statement of wealth of the ministers and members of parliament. This time he has fixed a time for it; we are told that the statement would be released by June this year. We are glad that MPs belonging to other parties will also come under the purview. It is about time too. Here we cannot but take note of the statement made by the recently appointed Chief Justice in his very first day in office suggesting that the judges of the apex court should also submit their wealth statements for the sake of transparency and accountability.

Nothing concrete has materialised under the grand alliance government by way of submission of wealth statements even after a year of its being in office. We understand that the format on which the incumbent will have to declare their assets is on the PM's desk awaiting her approval, so that by June at the latest, the wealth statements will have been submitted.

It may not be out of place to recall that one of the electoral pledges of the AL in 2008 was to make public wealth statements of the prime minister, members of parliament, ministers and their dependents, every year. This has not been done, and somehow the issue has been hedged for one reason or the other. And the people got an apology of an explanation from the finance minister, which was not quite in character with his persistent stance on the matter.

It may also be relevant to remind that during the previous tenure of office of the AL in 1996, Sheikh Hasina as the PM had made a similar pledge, although that was not in the party's election manifesto at that time. Regrettably, nothing of the kind happened, and all we got then also was an explanation that although the statements were in hand of the PM these could not be made public, perhaps because of some exigencies of the time.

We thus have a history of commitments made and of commitments not kept insofar as this issue is concerned. We hope that the effort will not be merely cursory or perfunctory this time around, and that the pledge will be translated into substantive action and the public made aware of it. What better means of accountability to the electorate can there be of their representatives to generate public confidence in them than their disclosure of assets before the public on a year-to-year basis and the government keeping tab on these.

The arrest drive

Let it be directed against the recalcitrant only

THE law enforcers have launched a drive reportedly to arrest Shibir-Jamaat activists following the brutal killing of a Rajshahi University student by Shibir supporters. The state minister for home has made it known that educational institutions where Shibir-Jamaat has had any links will also be put under the microscope.

The government's decision to go tough on the issue is understandable. But the decision-makers have to make sure that only the hardened criminals facing specific charges are brought to justice. In a situation like this, discretion and caution are needed more than anything else in order to avert any confusion or public misgivings in any way

There is no denying that the monstrous growth of anachronistic and vicious politics has to be countered effectively. However, it is the modus operandi of the drive against the troublemakers which has to be designed in a way that would not cause any inconvenience to the people in general and that none is victimised, even unwittingly. In other words, no witch hunting takes place. The risk of sweeping arrests will have to be consciously avoided with no room for finger pointing to settle old scores or any innocent being harassed in any way.

The law enforcers must act without creating an air of unease. We believe that battle against extremism and brutalisation has to be waged in several fronts simultaneously and people's cooperation has to be sought to ward off the challenge. So, it is a matter of utmost importance that a raid is carried out on the basis of unassailable facts and in an extremely calibrated way in order that no innocent is caught up in the drive.

We believe the government will handle the situation prudently but sternly and direct the law enforcers accordingly.

The perils of buying on margin

Buying stocks on margin is similar to buying houses on mortgage loans -- the former uses the portfolio of stocks as collateral and the latter uses the house -- and both loans charge interest.

ABDULLAH A. DEWAN

THE Daily Star's February 9 report that the SEC cut the ratio of brokerage houses' margin loans to equity ratio from 1:1.5 to 1:1 (henceforth called, margin requirement ration: MRR) has drawn my attention and concern. If I am not mistaken, a 1:1.5 MRR allows margin loan 150 percent of the market value of marginable stocks and 1:1 MRR means 100 percent. In the US, the MRR is 50 percent or 1:0.5.

The SEC's MRR is perilously high, exposing margin investors to a potential financial disaster in particular and the entire market participants in general, to serious threats of potential losses in the event of a crash. Similar MRRs were maintained prior to the 1929 near ruinous US stock market crash. Even at 50 percent MRR, I lost 80 percent of my portfolio's value when margin calls kept coming almost daily as the market was plummeting progressively during 2000.

Buying stocks on margin is similar to buying houses on mortgage loans -- the former uses the portfolio of stocks as collateral and the latter uses the house -- and both loans charge interest. As long as you make timely payments, house price falling below the mortgage loan doesn't affect you immediately unless you apply for refinancing the mortgage or put the house for sale. With margin loans, a fall in the market value of the portfolio below the loan amount will trigger "margin calls" asking the investor to immediately restore the MRR, otherwise the brokers will liquidate a part of the portfolio to maintain the ratio and the action will continue as the market keeps tumbling.

Regardless of how the stocks are performing, one still has to pay interest on that loan. If the stocks pay high dividends, this money can defray some or all of the interest costs of the margin loan. At a time of continually sinking stock prices, losses can escalate drastically to a point of utter helplessness and nervous breakdown. In the 2000 US stock market debacle there were incidences of suicides and shooting of stock brokers by clients.

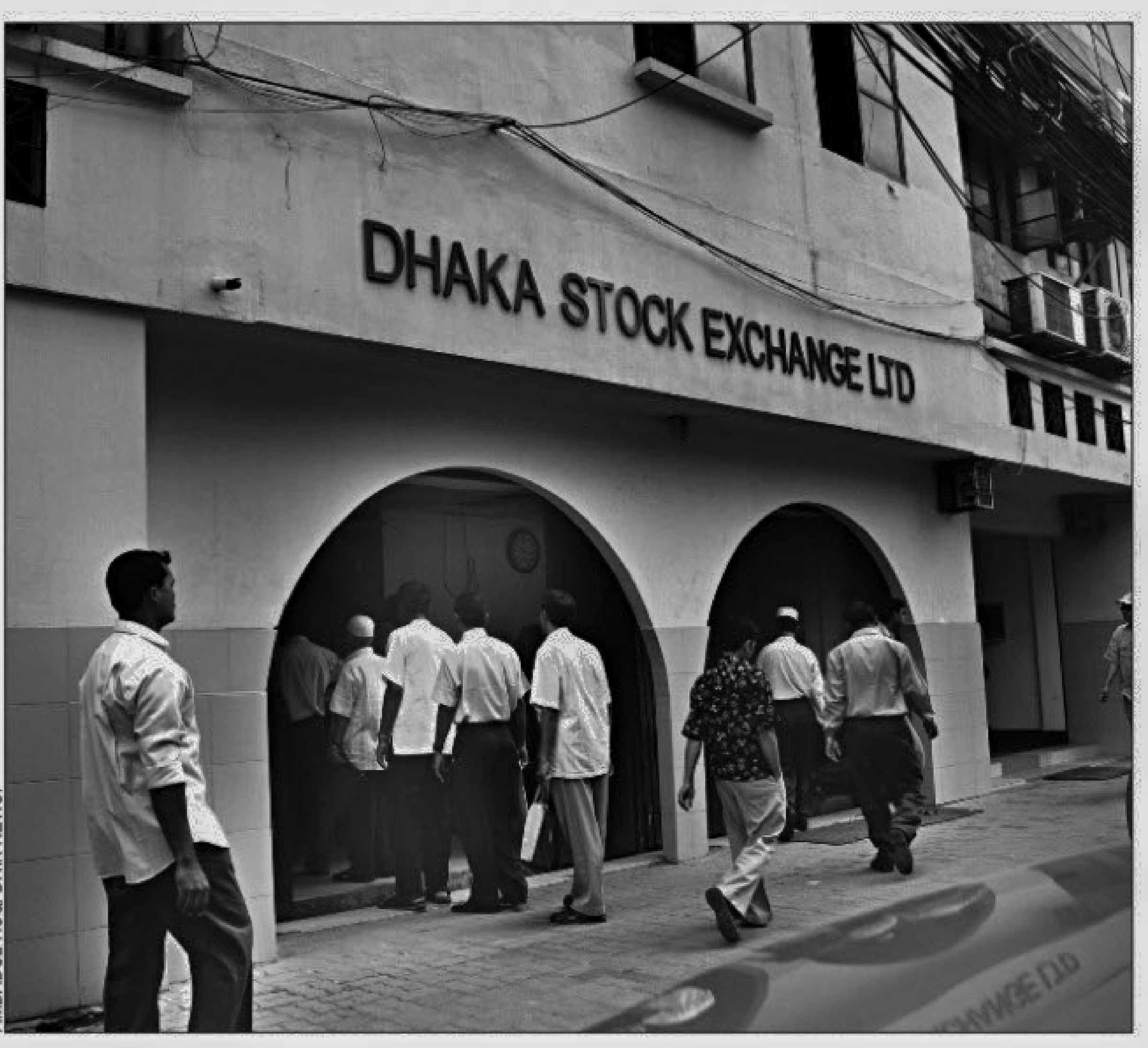
In an overheated market dynamics, if the market were to take a stumble, margin calls could gyrate into a crash. The US Congress believed this was what happened in 1929, when margin debt equalled 30 percent of the stock market's value. That is why it gave the Federal Reserve power to control initial margin requirements in the Securities Act of 1934. Since then MRR has been changed 23 times. It has been as high as 100 percent, meaning that none of the purchase price could be borrowed. Since 1974, MRR has been unchanged, at 50 percent, allowing investors to borrow no more than half the purchase price of equities directly from their brokers.

The purposes of the 1934 Act regulating the MRR were to: (1) reduce excessive credit, and divert more credit toward productive uses, (2) safeguard investors from debt driven speculative bubbles, and (3) reduce price fluctuations caused by margin buying and short selling.

The Fed left the MRR unchanged for the last 36 years, even when looming market bubbles turned into crashes, in order to avoid making the crashes more debilitating. Judging from that perspective, Bangladesh SEC's revising the MRR four times in short span of two months -- fearing market overheating and bubble forming -- seems erratic, if not opaque and desultory.

A stock market, by nature, reacts almost instantaneously to news and noise -- good or bad -- driven by policy and non-policy shocks. Margin loan has usually been regarded as one of the sources of instability in financial markets. This source of price volatility is characterised as a "pyramiding-depyramiding" process -- one that implicitly assumes speculation as the source of instability. This speculation is generally formed due mostly to excessive infusion of funds into the stock market in a low margin regime.

In a 2001 paper, using post 1934 US stock market data, Gikas Hardouvelis (University of Piraeus) and Panayiotis Theodossiou (Cyprus University of Technology) have shown that higher initial margin requirements are associated with lower subsequent stock market volatility during normal and bull periods, but found no relationship during bear market. Higher margins are also negatively related to stock returns, apparently because they reduce systemic risk.



AMDADUL HUQ/DRIK NEWS

Investors should be cautious.

They concluded that a sensible rule for setting margins (or other regulatory restrictions) is to lower them in sharply declining markets in order to boost liquidity and avoid a de-pyramiding effect in stock prices, but subsequently raise them and keep them at the higher level in order to prevent a future pyramiding effect.

My 1993 paper "Macro-econometrics of Stock Price Fluctuations" (Quarterly *Journal of Business and Economics*) has shown that stock prices respond to changes in long-term interest rates, money growth, budget deficits, output growth, inflation, and gasoline prices. In my study, MRR had no effect on stock prices since it did not change (after 1974) during the sample period of my analysis. While margin loans may not provide support for regulating future MRR to restrain volatility, it doesn't rule out the possibility of margin buying contributing to speculative boom.

Considerable research recently also shows that margin requirements have no impact on volatility. The latest research by Fed economist Paul Kupiec concludes "there is no substantial body of scientific evidence that supports the hypothesis that margin requirements can be systematically altered to manage the volatility in stock markets."

Nonetheless, advocates of higher margin requirements, such as Yale University economist Robert Shiller, argue that higher MRR can be an important signal indicating that the Fed is serious about cooling an overheated market (which essentially amounts to announcement effects).

Three prudent recommendations: (a) Following the US Fed, power to set initial MRR be given to Bangladesh Bank while allowing brokerage firms to have some leeway up to 10 percent, (b) bring down the MRR to 50 percent in slow steps, (c) keep constant vigilance against increases in margin debt -- both in aggregate value and relative to market capitalization -- reaching near an unsustainable level, threatening marked crash.

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Cheating the public

Should the public be aware of public procurement? Mainly, government procurement officials and private contractors are involved in it to benefit people. Therefore, people are a major stakeholder.

SHAFIUL ALAM

IN our society, "university" communicates quicker than the *biswabidyalay*. The fault isn't with the Bengali word, but because of how we use words.

Similarly, "tender" and "contractor" are more familiar than *dorpatra* and *dordata*. They revolve around the public procurement or government purchase process. Public procurement has been much talked-about since the present government took over.

Whenever a new government takes over, certain quarters tamper or grab government contracts for goods, services or works. Their attempts to violate relevant procurement acts and rules often tell upon the government's sincerity to establish discipline in the public sector finance.

Our government has already warned these tender manipulators, and declared zero tolerance for any disturbance or obstruction to the public procurement process, as per the provisions of the act and rules. The Public Procurement Act, 2006 and the Public Procurement Rules, 2008 came into force on January 31, 2008. The government amended both the PPA and the PPR in 2009 to accelerate implementation of the Annual Development Program (ADP). About 80 percent of the ADP allocations are spent on public procurement.

Public procurement improves infrastructure facilities, generates employment and resources through investment in different public sector projects. Better value for money can be achieved by ensuring purchase quality, and good contract management and administration.

Government entities use public funds for public procurement. These funds are mobilised through taxes. Loans from development partners finance public expenditures. The public bears the interest on the government's loans. So, public fund usage at the right time, price, place, and in the right quantity quality is a sine qua non for it.

Should the public be aware of public procurement? Mainly, government procurement officials and private contractors are involved in it to benefit people. Therefore, people are a major stakeholder. Since the media and civil society work for upholding the public interest and rights, they also have a stake in its process.

For instance, a piece of cultivable land in a rural area is rendered fallow due to waterlogging. Its inhabitants had suffered for years and their poverty worsen because they cannot produce rice, despite having some cultivable land. If a culvert is built there, and water-flow controlled as needed, the problem can be greatly resolved. Now, who will build that culvert? How and when? What about the spending and quality of this piece of public service?

Local people can inform the local union parishad of their problem, and the UP can place it before the upazilla parishad. If decided there, the Local Government and Engineering Department's (LGED) upazilla office may be tasked to build it. The LGED will do necessary groundwork for it and appoint a contractor. The contractor will implement the project as per the contract's conditions and schedule.

However, hundreds of such bridges and culverts are left half-done. Some are damaged within a short time into their construction. Even roads are damaged, some in months into their repair. What goes wrong?

If public procurement is divided into two major phases, the first includes its plan, preparation, budget and contract signing, and the second deals with contract administration or management. Such issues should be mentioned in the contract. Any malfunction can be attributed to lapses in monitoring the contract execution by the concerned procuring entity and the contractor.

The people have the right to know why and seek redress for it. They can raise their voice when they know of their rights. Therefore, public procurement issues are closely linked to their everyday life and business. This is why raising awareness about the procurement process and its outcomes at the grassroots level is important.

Nevertheless, sensitivity cannot be overruled here. Development works are done all year. Vested quarters, in the name of exerting their rights, often resort to extortion from contractors. The contractors try to make it up at the cost of their work's quality. So, extra caution and accountability need to be maintained.

IQBAL AHMED/DRIK NEWS

Where does all the money go?

Since procuring officials and contractors are directly involved, they are responsible for delays and breach of conditions in completing the task, as per its agreed-upon design and quality.

Timely preparing a proper procurement plan and releasing funds, preparing documents, awarding the contract and implementing should be considered. Procuring entities and contractors should have appropriate skills and knowledge about the procurement rules' provisions.

The mass media, specifically dailies, often publish news on tender or procurement issues. Media members involved in filing newspaper reports and editing should also have some idea about the nitty-gritty of public procurement. Any deviation or misinterpretation creates confusion. After all, establishing a well-functioning public procurement system requires enhanced awareness by procuring officials, contractors, media, civil society and the public.

The essence of public procurement is to ensure efficiency, transparency, fair competition and equal treatment for all. Ensuring better value for public money and its right use brook no delay for establishing good governance in a country with scarce resources but unlimited want.

Just as with previous government, the present one is worried about the slow pace of ADP implementation. The Implementation Monitoring and Evaluation Division has already identified reasons for this and submitted to the government recommendations to overcome its limitations. Apart from taking different initiatives to gear up, the government has also amended the PPA and the PPR for accelerating the ADP implementation.

The necessity lies in enabling an environment where procuring officials can work by the rules without any fear or interference, and contractors do not face harassment in or undue obstruction to their activities.

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Corrigendum

In the article, printed on Feb 10, titled "No regrets on mass destruction," the author incorrectly states that Michael Walzer is affiliated with Princeton University. In fact, Walzer is Professor Emeritus at the Institute for Advanced Study. The error is regretted.