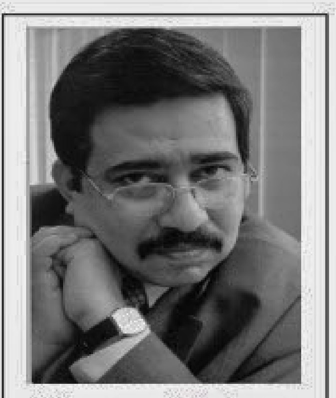
THIRD EYE

Capital Market woes



MAMUN RASHID

KNOWING that I am a banker and can very much appreciate price earning ratio, earning per share, direct listing, book building or more importantly underlying fundamentals of a stock, a lot of my golfing friends at Kurmitola Golf Club would ask me what to buy or what to hold on to or sell. The story tells me; almost one out of three persons in this target market has got something to do with investment in traded stocks.

Almost a year ago, a filmmaker asked me about increasing his investment in "pre Initial Public Offering (IPO) private placements" without even knowing when the IPO would be placed for approval of the regulator or floated, and requested me to help him invest more in upcoming private placement opportunities as he thought he should concentrate more on capital market rather than "box office hits."

Though I spent almost 10 years in global market environment with two leading British and Australian banks before joining a US banking giant, the very issue of "maintaining the firewall philosophy" didn't allow me to explore investment opportunities in Dhaka traded stocks during the last 10 years, when the Beneficiary Owner (BO) account came into being.

Yes, I could have done this with approval from Hong Kong and New York, but like many I decided to drop this mainly to avoid conflict between my personal interest and the company's interest in an emerging country. However, upon request I would "donate knowledge" on investing in fundamentally strong stocks, especially in the infrastructure and financial sectors. However I can't claim that my suggestions were very fruitful. I was dumbfounded to see more money being put on junk shares rather than the ones with good fundamentals.

My friends took me as mediocre when they got my advice regarding Khulna Power (most profitable and reliable private sector power plant, and with increasing their capacity too), Brac Bank (the fastest growing SME bank in the country), Eastern Bank (gone through a rigorous change process and now making good money) or Prime Bank (strong bank with growing capital base), which didn't turn out to be rewarding for them.

During my India stint, I saw that almost one out of two colleagues had an individual portfolio to manage. And that is exactly what an intelligent person is supposed to do. It was good to see more and more individual investors in Bangladesh getting engaged in the capital market and, more importantly, the lower-income group generating surplus cash despite the inflationary effects. But one should also remember that bad investment choices are only as good as never-earned income.

The capital market is the engine of growth for an economy. It performs a critical role as an intermediary between savers and companies seeking additional financing for business expansion. It was very encouraging to see that the capital market of Bangladesh is growing and the market cap reaching as high as $54 billion, with a daily turnover of around $300 million.

However, the story doesn't end here. As the market grows we compromise on the moral side with random regulatory failures. In absence of a tight-packed or dynamic guideline, the manipulators kept on playing their cards like in the mid-nineties. One does not know what will get a merchant bank or asset management company license approved, or is it a crime to invest a large sum in private placements? The regulators didn't do anything forward-looking, other than riding on day- to-day transactions. They didn't even learn anything from the neighbours or do anything aggressive to address the supply-side constraints.

AMDADUL HUQ/DRIK NEWS

We have burnt our fingers. The worst affected are the small investors, though everybody seems to be stuck somewhere and are searching for an exit route. There has been too much simplification and narrow discussions.

As mentioned, there are firms listed in the stock exchange that have historically strong financials, stable earnings, more or less quality management, and new projects that are expected to drive their future growth. These firms also operate in the most lucrative industry or business segments -- power, telecommunications and the like. Stock price embeds, among others, public confidence in management, forecast of future earnings of the firm, governance and of course perception. But that logic does not seem to be working here.

Despite talk about lack of confidence and mismanagement, perceived "no prospects," weak governance, etc., prices are going up, even for some state-owned enterprises. Now the enquiry committee is telling us that there were deliberate efforts from a section of operators to command the market their way, in absence of definitive tools applied by the regulators. They were either blind or incapable. Accountants, and even "price sensitive information advertisements," were used to hike up prices of junk shares, especially where the volumes traded or IPO amount was small.

AK Khan & Company invested larges sum in Grameenphone pre-IPO because there is no law or guideline to bar them from investing in private placements. GEM funds made a lot of money from small investments, because investment in BD Thai shares (which jumped many-fold in a short time) came out to be very attractive. Since they invested in secondary shares, no "lock in period" was applied on them (though there were issues with regard to their ultimate ownership and business model), and that has been the case everywhere.

I am sure the enquiry committee could see who were allowed to float shares on "Direct Listing" basis at the fag end and how the tight-packed "Book building" method was abused by the issuers in connivance with institutional investors. "Too much money exchanging hands" was hard to avoid by someone having some stake in the process of issuance, approval, pressure group or sleeping partners.

We have burnt our fingers. The worst affected are the small investors, though everybody seems to be stuck somewhere and are searching for an exit route. There has been too much simplification and narrow discussions. Investment in capital market is never bad, having a BO account can be a symbol of intelligence, or a "must have" for any enterprising person.

Making money is a forward march towards national wealth creation, provided we are focused on the "how" side of this. Appropriate guidelines with progressive enforcement can help us to move on. However, we have to play the game properly.

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The Yunus case

MAHFUZUR RAHMAN

BANGLADESH Bank removes Professor Muhammad Yunus as managing director of Grameen Bank. The aggrieved Nobel laureate goes to the High Court for redress and loses. He goes to a higher court which upholds the decision of Bangladesh Bank.

This is of course far more than another "case" in an increasingly litigious society. Here, underneath the legal briefs, is a saga of an idea taking shape and touching the lives of millions living in poverty. But this is not all a story of self-effacing altruism. This is also a story of hyperboles, egos and, in retrospect, a bit of absent-mindedness and lack of foresight.

Professor Yunus and his Grameen Bank have travelled far from the noble simplicity of the start. It was the year 1979. Professor Yunus had come to the United Nations where I was an economist. He was there as a member of the Bangladesh delegation to the United Nations General Assembly.

Bright and bubbling with ideas and energy, he caught the attention of some of the bureaucrats at the UN. Was he interested in a UN job? Most people would have jumped at the opportunity. Professor Yunus did not. He had other ideas. He had just made a humble beginning with microcredit back home in Chittagong and he wanted little else than to go on with it.

The delegation included a former colleague of mine at the Bangladesh Planning Commission who had introduced me to the bright young man from Bangladesh. I invited both to dinner at my Manhattan apartment. A cold December evening was spent in warm conversation that had little to do with microcredit. Dr. Yunus, all smiles, and steeped in humility, was polite to a fault to his elder host. In a few more days he was to return to Chittagong and his dream of making a difference for the poor with microfinance. I never met him again, but the brief encounter remained etched in my mind.

In the next few years Professor Yunus' idea of providing credit to the poor spread rapidly. Perhaps inevitably, its childhood innocence was lost almost as fast. By itself, of course, innocence achieves little in this complex world. Yet don't we humans keep wistfully looking on it?

In this case innocence started to unravel when the Bank became, in 1983, an official entity, with the Bangladesh government now owning a good part of it, and laying rules of business, not the least of which concern the appointment of its managing director, in this case Professor Yunus.

Government support for the Bank was necessary, but it came at a price. While Grameen Bank was to have autonomy in its functioning as a financial institution, its bureaucracy was to be governed by rules that apply to any other government agency. A Faustian bargain turned a visionary into a functionary of the government, at least in some eyes. Years later the rules governing the tenure of the managing director would come to haunt him.

For his part, Professor Yunus seemed to be blissfully oblivious of the bureaucracy and went on to spread the gospel of microfinance. At the same time, and rather oddly, he felt the need to excoriate textbook economics. He called it an "exclusive playground for bloodthirsty profit seekers." He believed that the "seeds of poverty are planted firmly in the pages of economic text-books." To him it was not far-fetched to suggest that traditional economics treated labour "like draught animals rather than human beings." To him a paradigm shift in thinking was needed if poverty was to be banished to the museum where, according to him, it belonged. And the way to do it was microfinance.

All of this was of course misleading overstatements and hyperboles. We are after all a nation given to overstatements and Professor Yunus' tirade against mainstream economics did not in the end amount to much.

AFP

This is a story that leaves you pondering: perhaps, a little less ego, a little more humility and a bit more foresight would have led to a very different outcome. But then we would be talking of traits of Bengali ethos.

None of it belittles Professor Yunus' achievements. Microfinance has spread rapidly in Bangladesh and around the world. It has made a difference to the lives of millions of poor people, though it is still not clear by how much. It has helped enhance the role of women in rural society. The pioneering achievements have earned Professor Yunus many accolades, topped by the award of the Nobel Prize for peace. The people of Bangladesh rejoiced over the award, Professor Yunus having been the first Bangladeshi and only the third Bengali to receive the prestigious prize.

Then, curiously, he stepped beyond the bounds of microfinance and into politics, quite unaware of its hidden landmines. His intentions were noble, just as they were in his original incarnation: he wanted to clean the country's corrupt political landscape. What he achieved in small loans, he thought, he could attain in big politics.

He even floated a political party for the purpose. He also chose a great name for it: Nagorik Shakti -- "citizen's force" would probably be an adequate translation. The Bengali initials of the words offered up an acronym of Naash, which bore an uncomfortably jinxed meaning of destruction. Nagorik Shakti in did fact self-destruct no sooner than it had been launched, ending its inventor's political ambition. Professor Yunus quietly returned to his turf.

In an otherwise amnesiac nation, his intrusion into politics was not, however, to be wiped from political memory so easily. Politicians, especially some in the highest echelons of politics, we are told, were stung by the Nobel laureate's low opinion of them. Perhaps no less important was the perceived threat to them from someone already larger than life. This after all is a land where, so the story goes, a famous pir put his own son to sleep when the hapless young fellow showed signs of spiritual prowess greater than his father's.

The removal of Dr. Yunus as managing director of the Grameen Bank and the subsequent developments are a curious mélange of the correct and the absurd. In removing him from his position of authority at Grameen, Bangladesh Bank was working within the law defining the age beyond which he could not function in that capacity. But then Dr.Yunus had been over the legal age limit for ten years now. Why was not he removed sooner and why did Dr. Yunus continue in his position? Was this a pure case of supine absent-mindedness all round?

The "case" appeared to split the nation. Those who thought that no good would come out of microfinance reiterated their position, and squarely found fault with Professor Yunus overstaying at the helm of Grameen. Much more vocal were his supporters. A recent gathering of prominent economists in Dhaka seemed to suggest that the government should heed the calls of the millions of shareholders of Grameen (and leave Professor Yunus alone) rather than apply the law blindly (and have him removed).

On the other hand, the law may be, in the famous words of a Dickens character a ass, a idiot, but it is meant to be upheld, and if a "democratic process" clashes with the law, the latter must still be upheld, till the law itself is changed, democratically. Not incidentally, it is Professor Yunus who sought redress in law.

The international reaction to the removal of Professor Yunus was amazing, though, given his prestige abroad, not unexpected. A large number of western nations openly expressed their misgivings about his treatment in his own country. What is truly amazing, however, is the general tone of the message from abroad, entreating the country to value one of its very own as much as the rest of the world values him.

This is a story that leaves you pondering: perhaps, a little less ego, a little more humility and a bit more foresight would have led to a very different outcome. But then we would be talking of traits of Bengali ethos.

The writer is a former United Nations economist and an occasional contributor to The Daily Star.