Development hinges on fast reforms

A retiring ADB director general advises Bangladesh

SAJJADUR RAHMAN

Dr S Hafeez Rahman is the director general of Asian Development Bank's South Asia Department (SARD), a post that has never been held by a South Asian. SARD that covers Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka is ADB's largest department. Dr Rahman, who retires today from ADB after serving the organisation for nearly 20 years, was involved in a number of landmark ADB operations, including resumption of the bank's operations in Vietnam in 1994 and Afghanistan in 20022003. He initiated ADB's assistance to Kazakhstan in 1995 in the aftermath of the collapse of the Soviet Union. He also played a big role in ADB's stabilisation and recovery assistance to the countries hardest hit by the 1997-1998 Asian financial crisis. Dr Rahman also served as ADB's country director in Nepal during the turbulent times of civil conflict.

Prior to joining ADB, Dr Rahman worked with Bangladesh Institute of Development Studies (BIDS) and was a member of several government, regional, and international expert panels and committees. Recently, he spoke to The Daily Star on a wide range of issues -- from foreign aid to development activities, Bangladesh's economic problems at the moment, the Padma Bridge and his retirement plans -- at ADB's Dhaka office.

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S Hafeez Rahman

Development requires certain changes in mindset; there is no tomorrow in development because needs are increasing every day, Rahman said. "It must be today or yesterday. You have to reform your institutions if things are not happening today or yesterday."

Rahman said institutions in Bangladesh are lagging seriously in project management, supervision, coordination and project approvals.

"They (institutions) need quick reforms in order to be able to focus on development," he said.

Foreign aid is needed for many countries and it can very useful if it is used efficiently, he said. There are examples of more efficient uses of aid -- it gives you the breathing space and time unlike a commercial bank, he added.

Rahman focused on efficient aid utilisation as Bangladesh is not getting the funds promised by development partners worth over $13 billion, even though the economy is passing through a difficult time.

"You have to have the mechanism…if you are too slow, it ends up wasting resource," Rahman said.

He cited examples of how things would get difficult for unnecessary delays in implementation. "If a drinking water project's implementation period is 5 years and if one takes 7-8 or 9 years to execute it, the amount of water you produce would be inadequate."

He also emphasised partnerships between the public and private sector in taking development issues seriously.

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According to him, Bangladesh needs to show urgency that it needs foreign aid. But showing urgency is not enough, the government has to carry out reforms quickly to use aid effectively and speed up development works, he added.

He cited India's example of portfolio management that has improved significantly in the past few years. ADB disburses $2 billion in foreign aid to India annually out of a promise of $3 billion.

"It happens when the government is serious," said Rahman. "But even 5-6 years ago, India was similar to Bangladesh in aid utilisation."

On Bangladesh's bottlenecks in aid utilisation, he said the Economic Relations Division (ERD) knows what the problem is.

Rahman advised the government to form a coordinating body or cell that would identify bottlenecks and accordingly, take action. He said Indonesia had formed such a body in the mid 90s to accelerate development works. The body met only top ministers before taking a decision, he added.

The conditions set by donors are much-talked issues in recipient countries, said the ADG DG. He also focused on this point and said these are very common to any lender, whether it is a commercial bank or World Bank or ADB.

"We are accountable to the shareholders. Donors put taxpayers' money and we have to make sure that every dollar is spent efficiently," Rahman said.

There are other advantages to getting involved with the donors, he said.

"Donors bring the best international practices (from design to supervision), which is the beauty of borrowing from them."

He however said Bangladesh has improved a lot in aid utilisation than what it was 10 years ago.

The ADB top official said the Bangladesh economy has been doing well until recent months. He said the problems came from fuel import payments. But it is manageable by coordinating fiscal and monetary policies. He also said high inflation is posing a big challenge for Bangladesh.

On the Padma Bridge, Rahman said ADB has already invested in the project by conducting detailed design of the bridge. "It's a difficult issue; one has to wait till the investigation report comes."

After a long career in ADB and other organisations in and outside Bangladesh, Rahman now thinks of his retirement. He wants to engage in research and analysis on development issues.

sajjad@thedailystar.net

Regulatory lunacy to set ourselves up for the next market crash

RASHAD HAQUE

THERE is such a thing as regulatory lunacy and one should look no further than directive of Bangladesh regulators requiring sponsor directors of all listed companies to hold minimum of 2 percent total share to maintain their directorship.

Although this may seem like a clever idea at first blush, this is yet another short sighted whimsical policy while real reforms to monitor the market is sorely lacking.

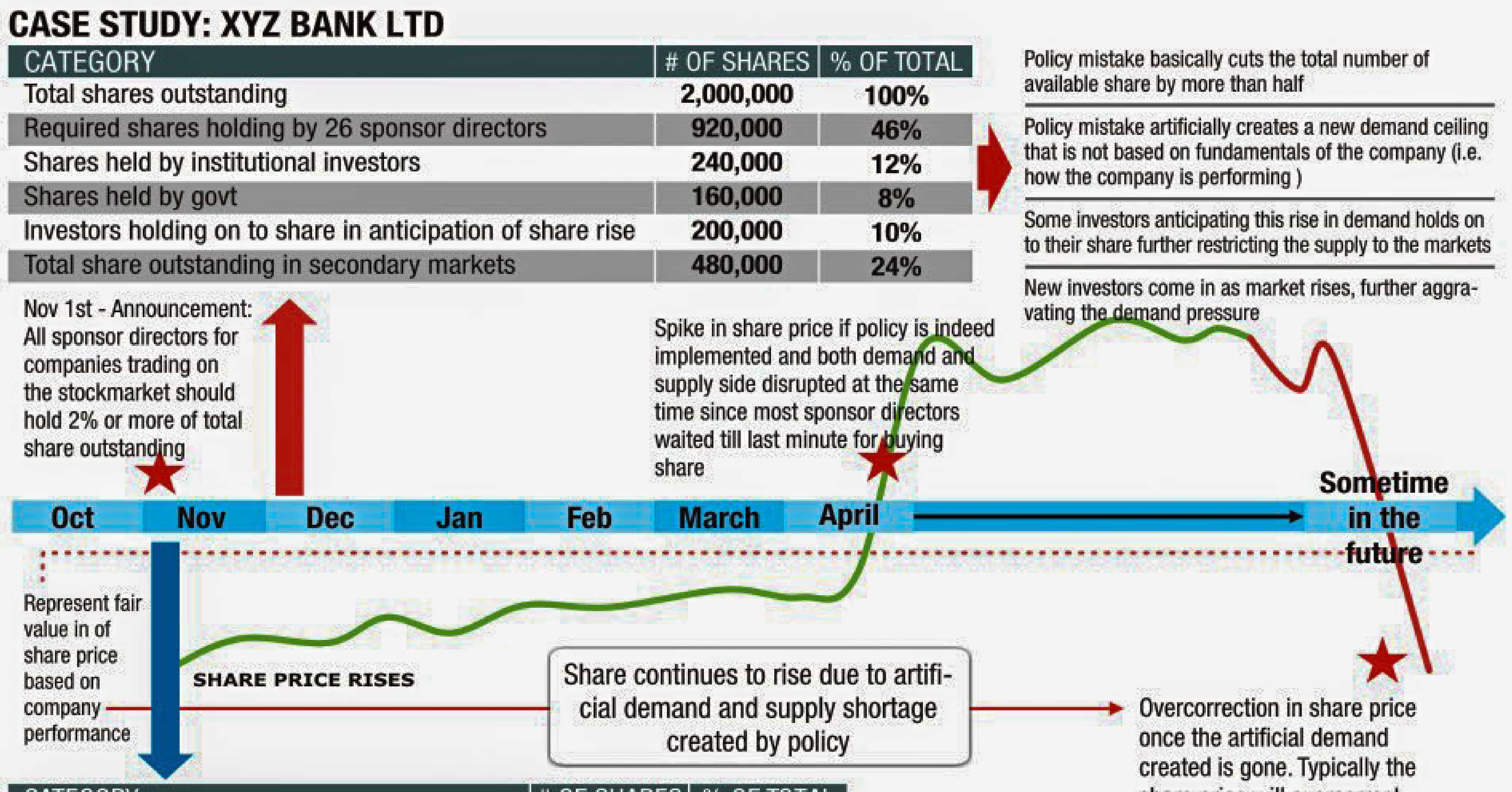
In 2011 when the market was correcting to a reasonable level after rising to the stratosphere during 2009 and 2010, rather than letting the market run its course, inept policymakers and uninformed bureaucrats searched for all kind of "crazy" schemes and one of such scheme was to require directors of all listed companies to hold 2 percent or more shares in their companies.

What does that mean really to the market fundamentals as a whole? It disturbs the market equilibrium by fundamentally distorting not only demands for a particular share but also the supply side thus compounding the problem to set ourselves for a market crash in the future as the case study example illustrates below:

So what's the intended consequence of the policy dictate? It will create artificial demand for a particular share of a company by forcing all directors to buy share in their company at the current price.

CASE STUDY: XYZ BANK LTD

CATEGORY	# OF SHARES	% OF TOTAL
Total shares outstanding	2,000,000	100%
Required shares holding by 26 sponsor directors	920,000	46%
Shares held by institutional investors	240,000	12%
Shares held by govt	160,000	8%
Investors holding on to share in anticipation of share rise	200,000	10%
Total share outstanding in secondary markets	480,000	24%



CATEGORY	# OF SHARES	% OF TOTAL
Total shares outstanding	2,000,000	100%
Shares held by 26 sponsor directors	400,000	20%
Shares held by institutional investors	240,000	12%
Shares held by govt	160,000	8%
Total share outstanding in secondary markets	1,200,000	60%

As the sponsor director of institutions goes to the DSE or CSE to buy back the share, he finds less and less share available for sale as outlined in the case study above.

This distorts the market, artificially inflating the value of the company since price is not measured by how the company is performing but rather on the fact there is more demand and less supply.

As with any markets, the market fundamental will eventually adjust. The sudden demand that was created by regulators will go away and when that happens, the market will change direction south fast crashing below fair value.

The losers again will be small investors who got into the market late but the winners will be certain manipulator and government cronies who probably pushed for these short-sighted policies in the first place.

In the case example above (which is representative of majority of the institution in the country), most of the 26 board members are entrepreneurs. They worked hard towards building up this great institution that had greatly contributed to the country's economy and progress throughout the last 30 years while the country went through bitter political bickering and violence, coups, natural disasters and other calamities.

XYZ Bank now caters to millions customers on a daily basis and has 100 branches throughout the country; the bank's paid up capital increased 500 percent and so did its income.

In the beginning, the Board of Directors collectively have maintained 50 percent or more share in the company but slowly they lowered the percentage of their holding of the share to provide more access to market shareholder to share the success of the company.

The company paid 20 percent or more dividends each year for the last decade. The same regulators that are dictating the directors to buy back the shares are the one who also dictated that more quality shares be made available to secondary market investors to make the stock market a vibrant one; the directors complied.

Then the market correction of 2011 came and all of a sudden all past regulatory dictation went out the window. Now the directors, who bought down their holding to comply with past regulation had to come up with the capital to bring back their holdings to 2 percent in six months.

If this isn't lunacy, I don't know what is.

Recent comments by the president of the DSE that the directors of companies reaped benefit while leaving the small investors holding the bag is disconcerting. He should clarify that the majority of the directors do not hold 2 percent of total share because they were required to sell off their shares due to regulatory directives from before.

It is a known fact (and outlined in the government's own mandated commission findings which the government unbelievably -- only in Bangladesh -- dismissed later) that only handful of sponsor directors with connection to the present government took advantage of the situation.

But the inept government and regulators did nothing to punish those individual but now wants to punish everyone else around them. To make a comparison; it's like we know who the village thief is but because the thief is too rich and powerful, we will just lock up all his neighbours instead so hopefully the problem will go away.

What's more unfortunate is that the handful of directors that misappropriated the money in the first place will now have the same opportunity as the market goes up due to fundamental disequilibrium.

I think the sponsor directors of public institutions should fight this lunacy vigorously through the court system (although the court system is not independent and at the government dictate). I am still surprised no-one has yet come forward to file a case against a whimsical policy that will basically take away what these directors have worked all their life for.

The writer works as a management consultant serving the financial services industry in New York. He can be reached at rashad.haque@gmail.com.

Correction

The Daily Star in a report, "Air operators may face safety audit", published on B4 on March 29 mistakenly mentioned that Easy Fly Express Ltd does not have the permission of global aviation regulator International Civil Aviation Organisation to start international operations.

Actually, the name of the airline should be Sky