Telenor in Bangladeshi takeover tussle

Norwegian telecoms company caught up in fallout over Grameen Bank

AMY KAZMIN, *The Financial Times*

TELENOR, the Norwegian telecoms company, is facing the threat of a takeover of its lucrative $2.6 billion Bangladesh subsidiary, Grameenphone, as part of the fallout of Dhaka's battle over the pioneering microlender, Grameen Bank.

Grameenphone, Bangladesh's biggest mobile operator with a 40 percent market share, has been in existence since 1997 as a joint venture between Telenor and Grameen Telecom Ltd, a business started by Muhammad Yunus, Grameen Bank's Nobel Prize winning founder.

But Telenor now appears caught in the venomous battle between the government of Sheikh Hasina and Yunus, whom it suspected of harbouring political ambitions. He was ousted as Grameen Bank's managing director in 2011, after running the institution for three decades.

A Bangladeshi government commission established last year to review Grameen Bank's governing structure and the status of affiliated companies such as Grameenphone, has concluded that Grameenphone's original licence, issued in 1996, was obtained illegally.

In an interim report issued last week, the commission said the licence was improperly issued based on memorandum of understanding -- before the partners had established a formal company -- and then illegally transferred to Grameenphone.

The report calls for Grameenphone's licence to be immediately suspended, or for Telenor to relinquish 16 percent of Grameenphone -- a stake valued about $415 million -- to Grameen Bank, which was set up to provide credit to poor, rural women.

Telenor, which has invested about $1.6 billion in Grameenphone, denies any impropriety in obtaining the licence, which was renewed, without any difficulty, last year. But the company is worried, and has warned in a written statement, that it will consider "all available legal options" to protect its interests in Bangladesh.

"Telenor Group is concerned that the ongoing dispute between the government and Professor Yunus impacts our significant investments in Bangladesh," the company said. "We expect the government to comply with both local laws and international treaties that protect the rights of foreign investors."

Yunus was not available for comment.

Telenor holds 55.8 percent of Grameenphone; Grameen Telecom Ltd holds 34 percent, while the remaining 10 percent trades on the Dhaka Stock Exchange.

The Bangladeshi mobile operator is Telenor's most profitable venture, recording a profit margin before tax, depreciation and amortisation (EBITDA) of 53.3 percent last year.

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India rolls out austere budget today

REUTERS, *New Delhi*

INDIA is likely to hit a fiscal deficit target of 5.3 percent of GDP this year despite a significant shortfall in revenue, a government report said on Wednesday, a day before the budget, but it conceded economic growth would be a sluggish 5 percent.

The annual report on challenges facing the economy was prepared by Raghuram Rajan, a former chief economist to the International Monetary Fund (IMF) who became the top adviser in the finance ministry last year.

It came a day before Finance Minister P Chidambaram unveils what is expected to be the most austere budget in years. Since returning to the finance ministry for his third stint in August, Chidambaram has cut spending sharply in a drive to narrow the fiscal deficit.

Rajan had previously said that 5.3 percent was a "tough" deficit target for fiscal 2012/13 (April-March), but the spending cuts in areas such as welfare, defence and road projects have convinced economists that the goal may be reachable, even though weak corporate performance and growth has hit tax receipts.

However, the report said more tax income was needed.

"It is better to achieve fiscal consolidation partly through a higher tax-GDP ratio than merely through reduction in the expenditure-to-GDP ratio, in view of large unmet development needs," the report said.

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For highlights of the economic survey, click here

A deficit of 5.3 percent of GDP would remain the widest spending gap among the BRICS group of major emerging nations, which also includes Brazil, Russia, China and South Africa.

It makes credit costly for the private sector and is the main reason for threats by ratings agencies Standard & Poor's and Fitch to cut India's sovereign credit rating to 'junk'.

"There is no escape route in achieving the 5.3 percent fiscal deficit target and I do not expect any slippage," said Anubhuti Sahay, an economist at Standard Chartered Bank. "Reining in expenditure is likely to remain a theme for FY14. However, this is not the way to manage the overall growth story. You have to manage the supply side in the middle to long term."

The report forecast the economy will grow 5 percent this fiscal year, falling in line with a separate government forecast that Rajan and Chidambaram questioned earlier this month, saying it was based on old data. Such low growth is the worst in a decade and could make the deficit target harder to reach.

Rajan's report predicted Gross Domestic Product growth of 6.1-6.7 percent in the financial year that starts in April, roughly in line with private economists' recent forecasts.

On Thursday, India is due to report GDP data for the quarter ending in December.

Prioritising expenditure and further cuts to subsidies on fuel are also key to medium-term fiscal consolidation, the report said. Chidambaram has vowed to bring the deficit down to 4.8 percent in the fiscal year that begins in April.

The report said further reining-in of the fiscal deficit, which hit 5.8 percent of GDP last year, would create room for "more accommodative" monetary policy. The Reserve Bank of India lowered interest rates for the first time in nine months in January, but rates remain among the highest of major economies.

The report recommended further curbing gold imports to narrow the current account deficit, which is likely to be at a record of about 5 percent this fiscal year.

India is prone to wide external deficits because it imports nearly 80 percent of its oil needs.

Imports of gold, used by small investors as an inflation hedge, are another driver of the deficit and remain high despite a recent hike to import tariffs for the yellow metal.

The imbalance has weakened the rupee, driving up the cost of imports, which puts pressure on inflation. To fund the high external deficit India relies heavily on foreign fund flows, exposing it to the risk of capital flight.

Mobile makers see bonanza in Africa

AFP

John Hoffman, CEO of GSMA which operates the Mobile World Congress, poses outside the Congress venue in Barcelona on Sunday.

AFP, *Barcelona*

AFRICA'S mobile phone market, the fastest-growing in the world, is the last frontier for the industry with the promise of unlocked riches luring global interest including from Chinese handset makers.

But there are two significant challenges in Africa, according to industry leaders and analysts at the world's biggest mobile fair in Barcelona, Spain: lowering prices for handsets and services and boosting a patchy network.

The use of mobiles is exploding among the one billion people in Africa, where landline networks are poorly developed. Many people rely on the devices for financial transactions -- Africa is a leader in the use of "mobile money" -- or to link to the Internet.

"Africa is the last frontier of mobile telephony in the world," said Manoj Kohli, chief executive of Indian group Barthi Airtel, which has a big presence in the continent.

"But it is tough to maintain a network," he added.

According to global consultants PwC, the number of mobile telephone subscriptions in Africa exploded from 16 million in 2000 to 246 million in 2008 and more than 500 million now.

It expects there to be 600 million subscribers by 2016.

Many Africans have two SIM cards to profit from cheaper calls on each network, however, and industry analyst Wireless Intelligence estimates only a little over one third of the population actually had a mobile telephone in the second quarter of 2012.

Average revenue per consumer in Burundi, Rwanda or Egypt was about $5 (3.80 euros) a month, it said.

Price is a challenge for handset manufacturers, too.

Chinese manufacturer Huawei this month launched a sleek new smartphone adapted for Africa, the 4Afrika, running on Microsoft's Windows Phone operating system and with a four-inch screen.

Adapted for each market, the Nigerian version has a dictionary for the local Yoruba language and local news, along with an application related to the popular low-budget movie industry, called Nollywood.

It is expected to sell for less than $200, a Microsoft executive said, with the first devices being offered as early as this month in Angola, Egypt, Ivory Coast, Kenya, Morocco, Nigeria and South Africa.

According to PwC, total investment in fixed and mobile networks in Africa should rise from $78.8 billion in 2008 to $145.9 billion by 2015.

Extending coverage to rural areas means bridging long distances but also requires energy, and the electrical grid is often unreliable or non existent, industry players said. Operators often resort to costly solutions such as solar panels or diesel generators.

Sifiso Dabengwa, chief executive of South African operator MTN, the leader on the continent, said the challenge was to provide a network from one end of the the chain to the other.

Fierce competition for African customers was hurting profits, he added.

"Five or six operators in a country makes it a difficult market for us," he said, accusing some players of charging at below cost and urging consolidation in the sector.

Some operators, including Barthi Airtel's Kohli, called for players to share infrastructure so as to ensure coverage of the continent and to have any chance of offering Africans third generation fast networks, let alone the superfast fourth-generation.

"We cannot duplicate networks. Only Americans and Europeans can do that, not Africans," he warned.

The menace of financial markets

EDWARD HADAS

FINANCIAL markets are unstable, unhelpful and often immoral. They should be kept under better control.

My disdain will be dismissed by free-market enthusiasts. For them, lively markets where equities, bonds and currencies are sold at publicly disclosed prices are clearly a good thing; they may even be capitalism at its best. Such open markets, they say, both improve economic efficiency and make society more free.

Not so; these markets are economically and morally harmful. Let me be clear. I am not discussing what non-economists usually mean by markets, the generally useful supermarkets and farmers' markets. Nor am I debating the merits of what economists refer to as the "market" the real or virtual place where buyers and sellers make transactions. Nor is this a screed against all of finance. Banks and insurers do not need financial markets to gather savings and make loans and investments.

My issue is with those open financial markets particularly in shares, bonds and currencies. In each of these markets, cash is traded for something entirely intangible and uncertain: a promise of fixed cashflow for bonds, potential cashflow for shares, and potential purchasing power and interest income for currencies. The problem is simple. Because the valuation of the financial asset is necessarily unknown, there is no hard reality to restrain irrational optimism and rampant cupidity. Both flourish.

In financial markets, prices wander all over the place like escaped cattle. That judgment is supported by solid analysis. In the 1980s, economist Robert Shiller demonstrated that actual changes in the economy and in companies' fortunes together cannot possibly explain the magnitude of share-price moves. He concluded that psychological factors mood swings play a major role.

Moods have not stabilised since Shiller did his studies. Why is the U.S. S&P 500 Index almost twice as high now as in March 2009, adjusted for inflation, while U.S. GDP is only 8 percent higher? Why is it 23 percent lower, adjusted for inflation, than in August 2000, while GDP is 23 percent higher? Why do exchange rates change far more than GDP growth rates, interest rates or trade flows? Shiller's answer to these questions is still persuasive; dramatic shifts between doubt and credulity lead to huge market swings.

Excessive market volatility distorts the rest of economy. Exchange rates always move too fast for companies to respond sensibly. Share price frenzies lead to unhelpful excesses and shortages of new capital. Bond prices are generally less flighty, but the rapid emotional gyrations in the euro zone government bond market overconfidence followed by panic brought the region into crisis. When a decade of blind investor optimism suddenly exploded into the financial panic of 2008, developed economies entered a recession which has not yet ended.

Financial markets do have a good side. Prices are disclosed, new capital is raised, and unwanted assets can be sold. But these benefits add much less to the economy than feverish trading and unjustified volatility subtract.

What about the moral claim for financial markets? They are correctly associated with freedom most notably the freedom to set prices and surely freedom is basically a good thing? Yes, but freedom is not good when it is habitually misused. Then it becomes harmful licence.

That is what happens in financial markets. Participants look for gains which are totally out of proportion to the effort expended. That's unjust. Their desire for unjustified gain is inevitably stained by greed, and the vice spreads through the entire financial system. Greedy investors are willing to pay ridiculously high fees to investment banks and brokers, and the employees at these firms often end up unjustly rich, and frequently especially greedy.

Financial markets should be tamed.

First, kill the myths. Economists currently flatter investors with silly fantasies about "efficient markets", "the wisdom of crowds", and the economic importance of financial market signals. Central bankers have a magical belief that rising asset prices strengthen the economy. Such stories have no place in an efficient economy, nor in a just one.

Edward Hadas writes about macroeconomics, markets and metals for Reuters Breakingviews.