

Municipal bonds can fund development projects



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WITH the recent distinguishable economic progress in Bangladesh, the capital market has shown a strong appetite for stocks and bonds.

When I exchange notes with some of my fellow financial industry experts, I find that many investors in Bangladesh are aware of the investment risk and yet are unable to follow much of a disciplined approach because of not having adequate options to diversify their portfolios.

There is a significant demand for high quality fixed income investment products like government bonds as the investors are often unsure of dividend-paying stocks' future.

If there is any systematic risk impacting the stock market today, most investors will go on the sideline, unsurprisingly after the effect, by keeping money in the banks, which are also showing grim signs of weakness.

In the USA, we reduce the investment portfolios' risk by diversifying allocation and almost always add some local or state government guaranteed bonds in the mix as they are essentially capable of making payments during any economic crisis due to their capacities to collect revenue from public utilities or of their taxing power.

While the Bangladesh government seems to be actively looking for a better investment environment for a more balanced economic growth, municipal bond issuing opportunities have not been added in the investment ecosystem.

The rural population in Bangladesh is now just under 65 percent. There is a significant increase in urban living over the last decade.

If Bangladesh can standardise a process of local development programmes, which will include municipal bonds issuing capabilities under clear investment guidelines, we could see a robust multidimensional development process all over the country.

These bonds, of course, will offer the investors guaranteed returns and investment security through the local government under some kind of federal insurance, like the USA.

Thousands of development projects could see the light of day and the local communities could participate not only by funding such projects and taking the ownership but also finding local jobs and creating local leaders who could top such scaled projects.

Imagine your local municipal members now capable of designing public policies, discussing issues related to portfolios and offering recommendations for stakeholders investing in local development projects.

Sadly, at this point, Bangladeshi voters rarely expect any such quality from their local leaders. Fulfilling expectations of better housings, jobs, schools and universities is still believed to be the responsibility of the central government.

In any developed country, local development projects are done locally and almost always funded by issuing municipal bonds.

Next door neighbour India is catching up too. For example back in June, Maharashtra issued a municipal bond at a coupon rate of 7.59 and

raised over Rs 200 crore.

So, how does it work? It starts with creating an advisory body to prepare guidelines for issuing municipal bonds. These bonds are going to be mostly of two types -- general obligation bonds and revenue bonds.

General obligation bonds are backed by the "full faith and credit" of the local government or agencies, such as Rajuk, which have the power to tax residents to pay bondholders interest.

Revenue bonds are issued by agencies such as those responsible for railroads, bridges or airports, who can use the revenue from a specific project or source to pay the coupons of the bonds.

For example, the Mongla port authority can issue bonds where the bond interest payments will be guaranteed by the port revenues. The municipal bonds should carry some advantages for the investors besides the fact that it will be more secured.

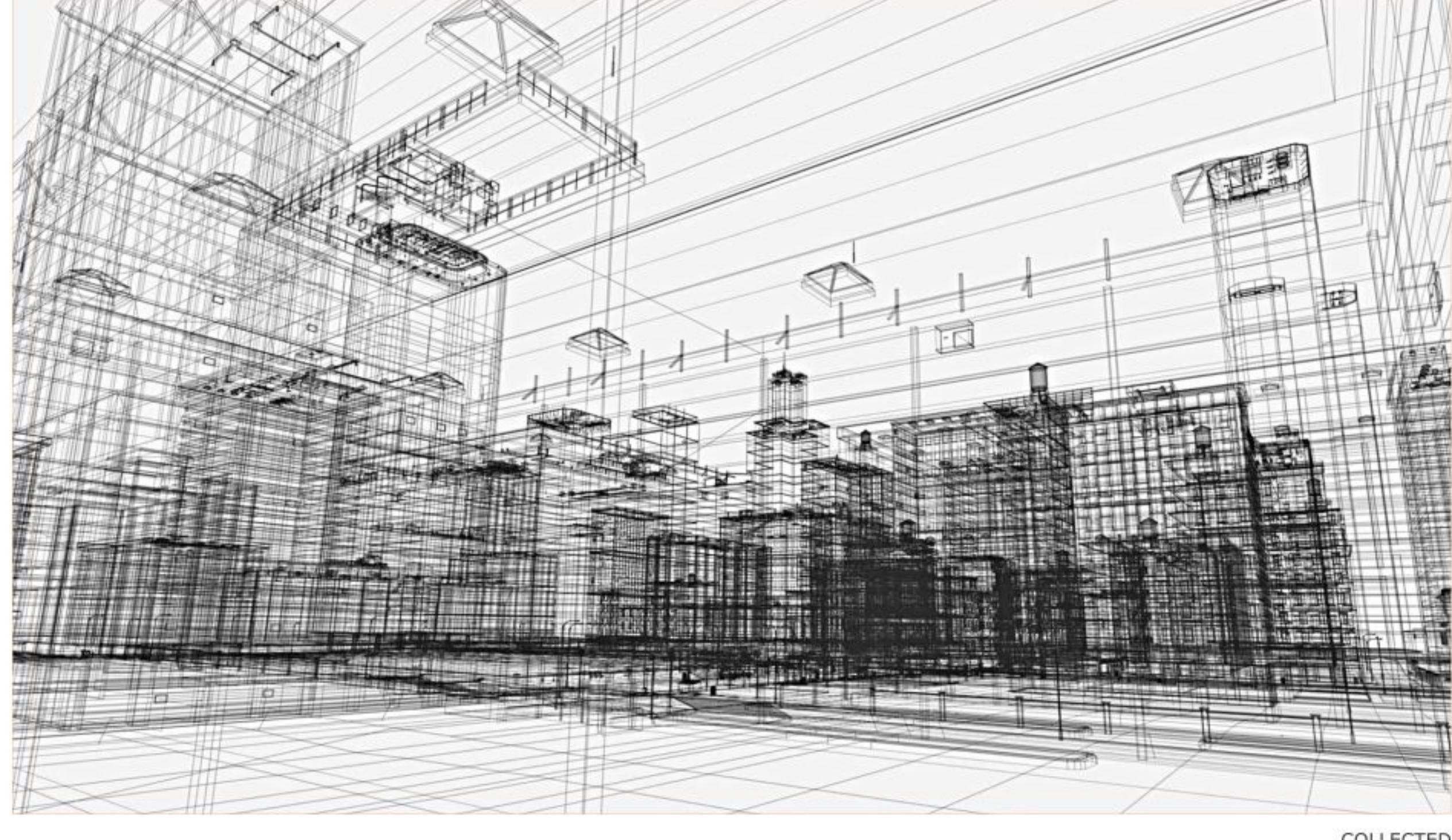
It is widely known that most government-run projects in Bangladesh are in losses and the business mindset does not exist anywhere. Well the decentralisation of funding and governing process will bring much-needed awareness on making development projects profitable too.

In such an environment, high caliber Bangladeshis will come to work for local governments as long as they get paid well.

Think of your local municipal member speaking to a board of investors and explaining a housing development project with key financial and time-series data reflecting the actual progress municipalities have made.

If you put project management skills as a key requirement to run for the local government seats, most of the existing leaders will be looking for something else to do.

Once a local government decides to finance a capital project by issuing bonds, it would hire a financing team



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to craft a project plan showing how the revenues will be adequate to pay the bondholders, allocate required sinking fund, underwrite cost and estimate costs for distribution channels, through commercial banks and brokerage houses.

The process will require developing offering documents, engaging with rating agencies, availing investor presentations, marketing bond offerings to investors, pricing the bonds and closing the transactions.

This is also a coordinated effort among various professionals, such as municipal financial advisors, bond counsels, underwriters, underwriters' counsels, rating agencies etc.

Projects like construction of stadiums, hospitals, retirement homes or large housing complexes could be financed through local governments by their capabilities to issue bonds.

The process is complex and this will require a lot of public information and disclosures which will also bring some discipline at the local level that could play an instrumental role in ultimately eliminating the prevalence of widespread corruption.

If a local government can show the required competence in running such operations, they can continue to access large capital which will then create competitions among various metropolitans and municipalities all over Bangladesh towards developing their communities and investing into revenue generating projects.

Instead of political parties comparing each other on how corrupt the opponent was, the competition should shift into the present time on the ground of valuable economic activities and ultimately push the

incompetent people off the cliff by introducing a system where skills and education are a must.

The purpose of any investment is not just to get a higher return but to provide a future for social and financial support. If you only earn a good return but your social systems are wrecked and can not offer you a good retirement place, how far can you go?

We need to look into assessing long-term progress in the basic dimensions of human development. An investment should be encouraging an environment that provides returns which are relevant to the overall social development and encompass living in harmony.

The writer is a financial adviser to Morgan Stanley in the USA.

Uber paid hackers to cover up massive data breach



REUTERS, London

The chief executive of Uber Technologies Inc, Dara Khosrowshahi, attends a meeting with Brazilian Finance Minister Henrique Meirelles (not pictured) in Brasilia, Brazil on October 31.

REUTERS

UBER Technologies Inc paid hackers \$100,000 to keep secret a massive breach last year that exposed the personal information of about 57 million accounts of the ride-service provider, the company said on Tuesday.

Discovery of the US company's cover-up of the incident resulted in the firing of two employees responsible for its response to the hack, said Dara Khosrowshahi, who replaced co-founder Travis Kalanick as CEO in August.

"None of this should have happened, and I will not make excuses for it," Khosrowshahi said in a blog post.

The breach occurred in October 2016 but Khosrowshahi said he had only recently learned of it.

The hack is another controversy for Uber on top of sexual harassment allegations, a lawsuit alleging trade secrets theft and multiple federal criminal probes that culminated in Kalanick's ouster in June.

The stolen information included names, email addresses and mobile phone numbers of Uber users around the world, and the names and license numbers of 600,000 US drivers, Khosrowshahi said.

Uber passengers need not worry as there was no evidence of fraud, while drivers whose license numbers had been stolen would be offered free identity theft

protection and credit monitoring, Uber said.

Two hackers gained access to proprietary information stored on GitHub, a service that allows engineers to collaborate on software code. There, the two people stole Uber's credentials for a separate cloud-services provider where they were able to download driver and rider data, the company said.

A GitHub spokeswoman said the hack was not the result of a failure of GitHub's security.

"While I can't erase the past, I can commit on behalf of every Uber employee that we will learn from our mistakes," Khosrowshahi said.

"We are changing the way we do business, putting integrity at the core of every decision we make and working hard to earn the trust of our customers."

Bloomberg News first reported the data breach on Tuesday.

Khosrowshahi said Uber had begun notifying regulators. The New York attorney general has opened an investigation, a spokeswoman said.

Regulators in Australia and the Philippines said on Wednesday they would look into the matter. Uber is seeking to mend fences in Asia after having run-ins with authorities, and is negotiating with a consortium led by Japan's SoftBank Group for fresh investment. SoftBank declined to comment.

Whether new dawn or another false one, euro zone economy is full of surprises



REUTERS/FILE

THE surprise economic star of 2017, when it wraps up next month, will have been the euro zone: growth looks set to come in at 2.2 percent compared with a forecast this time last year of just 1.4 percent.

Combine this with four years of falling unemployment and inflation well out of the deflation-worry zone, and policymakers and politicians have something to crow about.

But is something substantial going on, or is this another false dawn for an economy that has managed less than 1.6 percent average annual growth in its 18-year history?

A skeptic might say it is all just cyclical, soon to reverse. Or that it is simply the result of 2.2 trillion euros in already-being-rolled-back European Central Bank stimulus forcing a famously sclerotic economy to budge.

Both have certainly played a role -- but although there are risks that does not mean the growth impetus is not different from previous upswings or that it will end quickly.

The cyclical argument, for example, stems from the euro zone's proclivity to lag the U.S. economy, tending to start a take-off just as the latter is stalling. Indeed, the current euro zone cycle is four years behind the U.S. one.

With some signs the long U.S. economic recovery might be peaking -- recent surveys have been flat to lower, and bonds are giving warning signals -- the skeptic could claim that in typical fashion the euro zone has started just as the Top Gun has finished.

But there are differences from, say, 2006 when after four years of lagging growth the euro zone surpassed the United States only to tumble as the financial crisis hurt both countries.

One, says Paola Subacchi, a senior fellow at Chatham House, is Europe's acceptance that growth sometimes needs help.

"There is now an understanding -- even in (fiscally hardline) Germany -- that demand needs to be supported," she said. "Unlike 10 years ago, or even five years ago, there is an understanding that you can't just sit and wait for growth."

It is not that austerity measures introduced after the financial collapse have been dumped wholesale, rather that some governments are more willing to add spending to the mix -- especially after many voters deserted mainstream parties.

Germany, for example, has increased public spending on roads and bridges, faster internet and social housing -- turning state spending into one of the most important growth drivers

in the euro zone's economic powerhouse over the past two years.

Some structural reforms have been undertaken after years of being called for in vain by central bankers, the International Monetary Fund and others. More flexible labor laws -- notably in Spain and Ireland -- have helped prompt growth, notes Florian Hense, European economist at Berenberg bank.

"What keeps things going are employment gains," he said.

The argument here for a continuation of growth is that there is plenty of spare capacity in the work force.

Although well off its mid-2013 high of 12.1 percent, the euro zone's unemployment rate is still 8.9 percent -- enough, Hense reckons, for two more years before there is any labor shortage.

Attempts are also being made to keep such reform coming. In France, President Emmanuel Macron has already signed decrees to cap pay-outs on unfair dismissals, while also giving companies greater freedom to hire and fire.

The balance for euro zone reformers will be how to achieve their plans against a wave of anti-establishment sentiment among voters angry at being left out of the post-financial crisis recovery.

The euro zone's new growth climate has also been fostered by the ECB's stimulus, but its withdrawal may not be as damaging as it was in 2011-2012.

Sarah Hewin, chief economist for Europe at

Standard Bank, says the ECB pulled stimulus too early then and that its balance sheet -- the assets it holds -- was shrinking in 2012-2014, when the euro zone slipped into its second recession.

But that was also the height of the euro zone debt crisis, much of which has been patched up.

The ECB's recent decision to halve what it buys has caused little angst because it is moving slowly. Stimulus will continue -- balanced against growth -- and low interest rates are pretty much a euro zone fixture.

So is everything rosy? No. Risks remain, including broad ones like a China-led global slowdown.

The latest worry is the prospect of political disruption in Germany given Chancellor Angela Merkel's failure to build a coalition government.

Add to that possible electoral upheaval in Italy next year and you have the same kind of political uncertainty as at the beginning of 2017, when there were concerns about anti-euro zone candidates winning in the Netherlands, France and Germany.

But for now, economists appear to see this as just noise, banking on the foundations of euro zone growth to call for just a gentle slowing next year after this year's surprise.

"It would require a major policy upset somewhere around the world (to end this)," Berenberg's Hense said.