Creating a modern and diverse capital market in Bangladesh

SHARJIL HAQUE

In most market economies around the world, companies can typically choose between many financial assets to raise money for growth and capital expenditure. Some will issue corporate bonds. Some will access bank loans. Others might get listed in the stock exchange and raise money by selling shares to the public. If that's not enough, there's private equity (PE) financing.

In Bangladesh, however, firms hardly have such luxury. If a company needs to raise money, they will typically run to the troubled banking sector. As for raising money through the public equity or stock market, companies shy away from going public due to many regulatory shortcomings and inadequate incentive. For example, a report by The Daily Star, shows only 10 companies have been approved to go public between 2011 and January 2019 ("IPOs lose lustre for high cost, lengthy process", January 13, 2019). And to top it off, private equity as well as corporate bond financing is almost negligible in Bangladesh.

Here in lies the need for a modern capital market in Bangladesh: one that combines the benefits of public equity (stock market), private equity and corporate bond financing with traditional bank credit. Since these different sources of capital are complementary to each other, what we need is a three-pronged approach to modernising Bangladesh's capital market: (i) Developing the Private Equity Market; (ii) Strengthening the Stock Market; and (iii) Deepening the Bond Market.

DEVELOPING THE PRIVATE EQUITY MARKET

So what is a Private Equity firm? These are investment firms that raise money from institutional investors such as hedge funds, mutual funds, wealthy individuals, university endowments, pension funds, retirement funds, etc., and use this money to acquire companies. Their goal is to improve the value of the company before selling it at an appropriate price. But PE is not just a source of capital. It is a source of knowledge. PE fund managers provide valuable expertise on how to grow a business, make it more efficient and profitable.

The Dhaka Stock Exchange building.
PHOTO: STAR

Investments, or more specifically acquisitions, can be made in startups, small/mid-sized companies that need additional capital to purchase new machinery, office space or any other asset that will help such companies grow. Investments in startups are typically known as venture capital investments. We were all delighted to see renowned venture capital firm Sequoia recently investing in Bangladesh. Such a revolutionary investment surely promises to draw more attention from other global PE firms and hopefully become a standard source of capital for startups that cannot access bank financing due to lack of collateral.

Venture capital investments are minority-owned acquisitions. So while companies can receive valuable knowledge on efficient business strategies from these PE firms through sporadic interactions, they still do not receive the hands-on day-to-day managerial expertise that could be availed if PE firms took majority-control of these companies.

This is where buyouts come in. Or more specifically, leveraged buyouts (LBOs) as it is known famously all across the world. These are majority-controlled acquisitions in large established companies. Why would such big companies need private equity? Consider any large firm in Bangladesh that has already taken out lots of loans from banks and so accessing more loans is difficult without having to pay high borrowing rates. Or imagine a profitable firm that has a strong position in the market whose growth

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