

The Role of Investment Corporation of Bangladesh in the Development of Capital Market of Bangladesh

Md. Saddam Hossain*

Abstract

A capital market is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold (Sheffrin, 2003). Capital market plays an important role in mobilizing resources, and diverting them in productive channels. Investment Corporation of Bangladesh (ICB) acts as an Investment Banker, Market maker & Portfolio Manager which has significant contribution from the beginning of its establishment to develop a well-organized, vibrant, balanced, efficient, stable and liquid capital market in Bangladesh. The functions of ICB are very much related to the development of the capital market in Bangladesh. However, the existing literatures are not adequate to show the role of investment banks in the development of capital market of Bangladesh. So, this indicates to the research problem which motivated the endeavor to undertake research on the role of ICB in the development of capital market of Bangladesh. Secondary data of FY2008-2009 to FY2016-2017 have been used to achieve the research objective and collected data have been analyzed through multiple regression and correlation. The paper found that ICB provides institutional support to meet the equity gap of the companies and in view of the national policy of accelerating the rate of savings and investment to foster self-reliant economy, ICB assumes an indispensable and trustworthy role. So, the paper recommends that the number of IPOs issued by ICB is decreased with the total IPO issued in capital market and the performance of ICB mutual funds are decreasing year to year which are needed to improve.

Field of Research: Finance

Keywords: Investment Corporation of Bangladesh, Capital Market, Mutual Fund, Portfolio.

* Lecturer, Department of Business Administration, School of Business, Britannia University, Comilla, Bangladesh Email: saddam.ru7612@gmail.com

Introduction

Investment in the capital market is one of the key factors in the long run for a country to attain higher rates of industrialization. An efficient and sound capital market plays an important role in terms of mobilizing increased capital flow and maintaining the stability of the financial system (Wahab et al. 2012). In this way, it facilitates and promotes the process of economic growth in the country. In present world it is most important to develop strong capital market for developing a country. It facilitates the movement of stream of capital to be used more productively and profitability to increases the national income. The speedy development of industrial in the country needs the support of a balanced and efficient Capital Market. A sound Capital market also assists the entrepreneurs whether in the private or public sector to acquire capital for a feasible project. A well-developed capital market comprising expert banking and non-banking intermediaries brings stability in the value of stocks and securities. It does so by providing capital to the needy at reasonable interest rates and helps in minimizing speculative activities.

Investment Corporation of Bangladesh (ICB) acts as an Investment Banker, Market maker & Portfolio Manager which has significant contribution from the beginning of its establishment to develop a well-organized, vibrant, balanced, efficient, stable and liquid capital market in Bangladesh. The functions of ICB are very much related to the development of the capital market in Bangladesh. As banking financial institution it receives term deposits and provides margin loan. As a development financial institution it provides term loan to finance equity gap, provides working capital. As a market maker it issues unit certificate, underwriting securities. It also issues and manages Mutual Funds. That is why it is very much important for us to know about ICB for the development of capital market of Bangladesh.

There are various previous papers which focused on the role of investment banks in the development of capital market. From this view point, the current paper is unique because it showed the role of a single institution in the development of capital market of Bangladesh and this study found some important capital market functions of Investment Corporation of Bangladesh (ICB) which have direct impact on the development of capital market of Bangladesh. The significance of these functions on the development of capital market of Bangladesh was tested and proved through multiple regression analysis.

But this paper is not free from limitations. During the collection of secondary data, it has been seen that there are scarcity of research works which did not show the direct role of investment banks on capital market.

So, it is evident that there is a research gap and to solve this gap the present study investigates the research question: “Is there relationship between the market capitalization (both DSE & CSE) and functions of ICB?” However, the following hypothesis has been developed to find the appropriate answer:

1. There is no relationship between total market capitalization (both DSE & CSE) and functions of ICB.
2. There is relationship between total market capitalization (both DSE & CSE) and functions of ICB.

This paper is organized with various sections. Section 1 deals with introduction, Section 2 focuses on the theoretical framework, Section 3 contains literature review, Section 4 presents objectives of the study, Section 5 shows the methodology, Section 6 reveals the analysis and findings, Section 7 draws the recommendations, and Section 8 finally conclude the paper.

Theoretical Framework

ICB

In the backdrop of rapid functional change in economic policy, the Investment Corporation of Bangladesh (ICB) was established on 1 October 1976 under "The Investment Corporation of Bangladesh Ordinance, 1976" (No. XL of 1976). The establishment of ICB was a major step in a series of measures undertaken by the government to accelerate the pace of industrialization and to develop a well-organized and vibrant capital market, particularly the securities market in Bangladesh. ICB provides institutional support to meet the equity gap of the companies. In view of the national policy of accelerating the rate of savings and investment to foster self-reliant economy, ICB assumes an indispensable and pivotal role. Through the enactment of the Investment Corporation of Bangladesh (Amendment) Act, 2000 (No. 24 of 2000), reforms in operational strategies and business policies have been implemented by establishing and operating subsidiary companies under ICB. At present the Corporation is being operated under the "Investment Corporation of Bangladesh Act, 2014.

Capital Market Development

A capital market is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold (Sheffrin, 2003). Capital market plays an important role in mobilizing resources, and diverting them in productive channels. Development of capital market mostly depends on the performance of secondary market transactions, mutual fund, unit fund, portfolio management, IPOs etc.

Developing stable, resilient financial markets is not a goal on its own but rather a process that can support development and growth in an economy. The sustainability of structural reforms by deepening and broadening the outreach of the second program reforms by (i) extending the government yield curve and, therefore, promoting a more liquid government bond market and eventually corporate bond market; (ii) catalyzing institutional investor demand by broadening, deepening, and diversifying the investor base; and (iii) enhancing the supply of alternative financial instruments (Syed Ali, 2016).

Literature Review

Qamruzzaman investigated the performance of mutual fund schemes in Bangladesh considering 32 mutual funds based on risk adjusted performance measures suggested by Jensen, Treynor and Sharpe and found that many funds made abnormal returns comparing to the market returns. For evaluating performance of mutual fund in Bangladesh, widely known risk adjusted performance ratios are also used by Das, Rahman et al.

Mutual fund performances in Bangladesh are measured with common indices including ratios from Sharpe (1966), Treynor (1965) and Jensen (1967) besides the net asset value (NAV) of the funds. A performance study on 32 selective mutual funds in DSE during the period of January 2012 to June 2013, done by Qamruzzaman (2014), shows that most of the funds made abnormal returns comparing to the market returns. Study of Qamruzzaman (2014) was made on analyses of common calculated measures of mutual funds' performance ratios. This study is focused on average market returns and formation of funds in addition to performance ratios. The author intends to shed light on probable connections among performance ratios of mutual funds and other derivatives of market conditions and fund formations. The periodic NAV of funds indicates the fundamentals to its investors while the ratios show the overall performance of fund managers in terms of risk management actions and actual portfolio returns earned.

According to Rakib and Arif (2016), Mutual Fund industry in Bangladeshi is still in growing phase. The success of this sector depends on the performance of funds industry and the role of regulatory bodies. Excellent performance and stringent regulations will increase the popularity of mutual funds in Bangladesh.

Poornima et al. (2016) said that Initial public offerings are gaining importance worldwide as an important source of funds for the companies to accelerate their growth by using the mobilized funds to implement innovative strategies as well as considered as an important tool for

investment since it offers huge profits on the listing day. Primary market facilitate securities to the investors and assist the corporate sector in arranging funds in the form of public issue, offer for sale, private placement and right issue. Public issue can be further classified into initial public offer (IPOs) and further public offer (FPO). An initial public offering (IPO) is a company's first offering of equity to the public. IPO is a major source of capital for firms. IPO's are important milestone in any company's growth as it progresses from being a start-up/private limited company to public limited. Successful IPO can generate tremendous amount of wealth for company promoters as well as pre IPO investors.

Arvai and Heenan (2008) found that despite the numerous benefits of deep and liquid secondary markets for government securities, most developing and emerging countries have struggled to create markets comparable to those in most developed countries. It is important to note that not all countries might be able to develop domestic currency government securities markets. The fixed costs that market players or the government must pay to set up the infrastructure may be broadly similar across countries, but the benefits increase with the size of trading volume, which itself will largely reflect the size of the economy.

According to the Securities and Exchange Commission (SEC) Mutual Fund Laws 2001 all mutual fund managers shall submit weekly NAV of all units to the SEC along with quarterly and annual reports with specific requirements. As a result, the weekly NAV's of all mutual fund units are publicly available through organizational websites, which gives regular fundamental positions of the funds to their individual investors. Mutual fund managers do have scopes and should have necessary skills to select securities from the stock market that will ensure higher returns. There are theories of forming an efficient portfolio, the earliest one of which was given by H. Markowitz in two separate papers in 1952 and 1959. Following the theoretical guide lines available market specific parameters are worth to be taken into account during formation of a portfolio. Tracking regular NAV of fund units will be justified at the investigative findings on a fund in light of portfolio selection. This is also to ensure that the diversifiable risks have properly been taken care of. Evaluation of mutual funds starts from here and follow the next evaluation measures of all important and commonly used ratios mentioned earlier. The University of Chicago professor Eugene Fama and renowned researcher Kenneth French (1996) wrote a paper by criticizing Capital Asset Pricing Model 1 and suggested 3-Factor Model 2 to find a more appropriate ratio that suffices the demands of small individual investors.

Objectives of the Study

i. Primary objectives

- To evaluate the performance of ICB towards the development of capital market in Bangladesh.

ii. Sub objectives

- To find out the present condition of Bangladesh Capital Market.
- To examine the operational procedure of ICB.
- To evaluate the performance of ICB towards the Development of Capital Market in Bangladesh.
- To evaluate the effectiveness of ICB in the Capital Market.

Methodology of the Study

Table 1a: Independent Variables

Code	Items
v1	<i>Secondary Market Transaction/Stock Market Operation (SMT)</i>
v2	<i>Mutual Fund (MF)</i>
v3	<i>Initial Public Offerings (IPO)</i>
v4	<i>Unit Fund (UF)</i>
v5	<i>Underwriting Activities (UA)</i>
v6	<i>Portfolio Management (PM)</i>

Table 1b: Dependent Variable

Code	Items
TMC	<i>Total Market Capitalization</i>

Research Type

The study was quantitative in nature. To serve the objective to the study that is to critically observe the role of Investment Corporation of Bangladesh in the development of capital market of Bangladesh.

Sources of Data

In order to gather relevant and efficient information for the research problem, the researcher has used secondary data and their analyses. The study was primarily based on information extracted from annual reports of ICB and its subsidiary companies, database of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), different websites, books, journals etc. from FY2008-2009 to FY2016-2017.

Data Processing and Interpretation

Statistical tool SPSS was used for analyzing multiple regression and correlation, as the study was quantitative in nature.

Analysis and Findings

Multiple Regression Analysis

Multiple regression analysis has been used to examine whether the activities of Investment Corporation of Bangladesh can ensure the

development of the capital market of Bangladesh or not. The dependent variable (market capitalization) has been regressed against each of the 6 independent variables in the Table 1.

The following **Table 2** exhibits the results of the regression analysis. To predict the goodness-of-fit of the regression model, the Multiple Correlation Coefficient (R), Coefficient of Determination or, Square Multiple Correlation Coefficient (R^2), Adjusted R^2 , F ratio and t-values with significance have been examined.

Table 2a: Model Summary

R-squared	0.886745
Adjusted R-squared	0.866395
S.E. of regression	10162.14
Sum squared residual	2.06E+08
Log likelihood	-71.12597
F-statistic	49.21943
Prob(F-statistic)	0.030315

In table 2a: From regression analysis, squared multiple regression coefficients (R^2) is 0.886745, suggesting that more than 88.6745% of the variance in the dependent variable (Market Capitalization) has been explained by the variation in independent variables of the activities of ICB.

The adjusted R^2 value 0.866395 is ideal to generalize the model well because this value is close to R^2 value with a small difference of 0.02035 (0.886745-0.866395). This means that it would account for 2.035% less variance in outcome if the model were applied to the population.

Here, the F value is 49.21943, which is statistically significant because critical F value 9.2020 (numerator=5 and denominator=48) is lower than calculated F value at 5% level of significance. The critical F value is less than calculated F value means the null hypothesis is rejected which represent that's statistically significant. In the table, the p value is shown as 0.030315 which is less than 0.05 indicating the model has a significant fit to the overall data.

In Table 2b: The application of coefficient-values in the multiple regression model equations ($Y_{TMC} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu_i$ Or, = 93718.57+ 6.766492(X_1) + 104.2173(X_2) - 13.45730(X_3) + 33.22945(X_4) + 23.08320(X_5) +42.61617(X_6) + μ_i)

Table 2b: ANOVA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	93718.57	30460.30	3.225877	0.0878
SMT	6.766492	0.758242	7.140337	0.0172
MF	104.2173	70.82592	1.389771	0.3084
IPO	-13.45730	6.990662	-2.935313	0.1819
UF	33.22945	19.11262	1.850762	0.2122
UA	23.08320	12.53307	4.660608	0.0316
PM	42.61617	25.35957	5.053989	0.0278

For testing each individual independent variable, the critical t-value at 5% level of significance with 5 degree of freedom (df) is 2.015. The calculated t-value of Secondary Market Transactions by ICB, Underwriting activities of ICB and Portfolio Management by ICB are respectively 7.140337, 4.660608 and 5.053989 which are statistically significant because their calculated t-values are greater than critical t-value and their exact level of significance (p-value) are close to zero. Other independent variables Mutual Fund of ICB, Initial Public Offering by ICB and Unit Fund of ICB are statistically insignificant.

Correlation Analysis

Table 3: Correlation

	TMC	SMT	MF	IPO	UF	UA	PM
TMC	1						
SMT	.812*	1					
MF	-.626	-.418	1				
IPO	.412	.115	-.278	1			
UF	.836*	.617	-.641	.487	1		
UA	.781*	.644	-.475	.638	.607	1	
PM	.771*	.553	.351	.653	.409	.686	1

** . Correlation is significant at the 0.01 level.

* . Correlation is significant at the 0.05 level.

The above table shows the correlation between all variables. The correlation between dependent variable Total Market Capitalization and six independent variables are positive except the mutual fund. The correlation between Secondary Market Transactions, Unit Fund, Underwriting Activities and Portfolio Management with Total Market Capitalization are significant at the 5% level.

Recommendations

Investment Corporation of Bangladesh (ICB) plays an important role from the beginning of its establishment to make the market balanced,

efficient, stable and liquid. The functions of ICB are very much related to the development of the capital market of Bangladesh. After that some recommendations may come to ICB from this research. These are:

ICB has so far floated eight mutual funds (closed-end mutual funds). The performances of ICB mutual funds are significant then other mutual fund but they are not performing well than they were. The performance of ICB mutual fund is decreasing year to year. ICB should focus on the better performance of mutual funds.

The capital market of Bangladesh is very volatile. Every year ICB issues significant number of IPOs in the total IPOs issued in the capital market of Bangladesh. But the number is reduced as the issuing of IPOs is decreased in the capital market of Bangladesh for the last few years.

Though the establishment of ICB was a major step in a series of measures undertaken by the government to accelerate the pace of industrialization and to develop a well-organized and vibrant capital market, particularly the securities market in Bangladesh but ICB has turned into a profit earning organization. It mostly focuses on the performance of its activities for earning profit but not on the development of capital market. So, ICB should more emphasis on the development of capital market of Bangladesh. As a result, the performance of activities will gradually be increased.

Conclusion

ICB is a unique name in our country as an investment Bank. It has skill and experienced labor force and professional and dedicated management team that enable to pursue the ICB's goals and objectives. ICB is playing a significant role to the capital market growth and development. In this research, from the comparative study of ICB activities with different capital market segment and from regression analysis, it is also showing ICB has significant impact on and role in the capital market development of Bangladesh. ICB has great influence in the capital market. ICB plays its important role for the gaining of the investors' confidence on the capital market and further industrial growth in our country and the development and stabilization of the capital market in country. To conclude this research it can be said that it was a great opportunity to study the activities of the biggest investment bank as well as merchant bank in Bangladesh which plays an important on the development of capital market. The Investment Corporation of Bangladesh (ICB) is virtually the investment bank in Bangladesh. In a broader sense ICB is both Investment bank and Development Financial Institution (DFI). ICB plays a vital role to encourage and broaden the base of investments and thereby to play a significant role to the capital market's development in Bangladesh.

References

- Sheffrin, S. M 2003, Economics: Principles in Action, Upper Saddle River, NJ: Pearson Prentice Hall. p. 283*
- Shah, S. A. M. H2016, 'Capital Market Development in Bangladesh: A Sector Reform Perspective', ADB South Asia Working Paper Series, No. 48*
- Arvai, Z and Heenan, G 2008, 'A Framework for Developing Secondary Markets for Government Securities', IMF Working Paper*
- Wahab, A and Faruq, O 2012, 'A Comprehensive Study on Capital Market Developments in Bangladesh', Working Paper Series: WP1203, Research Department, Bangladesh Bank*
- Poornima,S, Haji, A. J and Deepha, B 2016, 'A Study on the Performance of Initial Public Offering Of Companies Listed In NSE, India & Gulf Base GCC Index', International Journal of Research in Finance and Marketing (IJRFM), Volume 6, Issue 11, pp. 31-46*
- Anwar, S. M. R and Arif T. M. H 2016, 'Evaluation of Mutual Funds Performance in Bangladesh: Investors and Market Perspective', Global Journal of Management and Business Research: C Finance, Volume 16, Issue 9, Version 1.0*
- Li, X and Shi X 2016 'the Impact of IPO on the Secondary Stock Market—An Empirical Research', Modern Economy, 7, pp. 299-306*
- Investment Corporation of Bangladesh 'Annual Report FY2008-2009 to FY2016-2017'*