

## DEVELOPMENT EFFECTIVENESS COMMITTEE

### Chair's Summary of the Committee Discussion on 8 October 2008

#### Special Evaluation Study - ADB Assistance for Domestic Capital Market Development

1. The study found ADB's assistance in capital markets development generally successful and cited areas for improvement in terms of enhancing efficiency and sustainability, strategic positioning and achieving development impact.
2. While agreeing with most of the major recommendations, Management expressed reservations as regards the study's findings that (i) resource transfers under program lending generally exceeded actual adjustment and investment cost associated with the supported reform programs; and (ii) sector impact was not closely related to the level of resources transferred. Management explained that the study did not consider the indirect costs (e.g. political constraints) related to adopting reform programs. Management also emphasized that quantification of the development impact was underestimated as the study did not take into account the opportunity cost of not undertaking the reform programs.
3. OED noted that adjustment and investment costs associated with capital market programs were comparatively low, and mainly related to transaction-based tax measures. Even if indirect costs were considered, these were unlikely to be significant given the nature of capital markets reforms. OED further noted that the economic impact of sector assistance has been rather modest, as reforms have yet to lead to significant capital market development, especially in small countries. Most reforms supported the development of regulatory and legal frameworks for securities markets, which can facilitate market growth only in the presence of conducive economic, policy, institutional, and judicial conditions.
4. DEC acknowledged the timeliness of the SES in providing inputs for the preparation of a Financial Sector Strategy paper by Management. DEC agreed on the need for an internal mechanism to better coordinate capital market development issues among regional departments, PSOD and OREI. One DEC member suggested an incentive-based approach to the mechanism.
5. In a broad context, DEC emphasized ADB's role in spearheading a regional policy dialogue platform that could encourage coordination and regional integration. Such an approach may also improve the relevance and effectiveness of economic and sector work for capital markets development. DEC highlighted the potential for ADB to leverage on regional financial knowledge. One DEC member called for more efforts by ADB to strengthen the regulatory framework of the financial sector and monitoring capacity on capital flow in the developing member countries (DMCs).
6. Resource issues were discussed in the context of finding the right balance between in-house expertise and external consultancy requirements. Management explained that the current approach (keeping a small number of in-house experts and hiring consultants) has been proven to be cost-effective. OED recommended that resource issues may be addressed in the ADB-wide financial sector strategy.
7. DEC Chair sought clarification on ADB's assistance to small economies; and why the International Organization of Securities Commissions (IOSCO) principle was not being followed or used systematically by ADB. DEC Chair also suggested that a table on estimates of adjustment costs for reform programs should have been provided either in the SES or in Management's response. One DEC member recommended designing an appropriate risk management approach for the sector.

8. Management explained that the ADB's role is to assist small economies in improving the governance of their existing equity markets to ensure investor protection, not in establishing new equity markets, and the policy recommendations for such programs are quite modest.

### **Conclusions**

9. DEC noted ADB's satisfactory performance in providing assistance for domestic capital market development.

10. Given that financial market development is a core operation priority in Strategy 2020 and the lessons drawn from the current global financial crisis, DEC welcomed the SES and fully endorsed the need for ADB to have a corporate level strategy that would guide its financial sector assistance, including its assistance for capital market development.

11. DEC noted that Management has agreed to the recommendations of the SES. DEC emphasized the need for a results framework with monitorable indicators to facilitate monitoring and evaluation of the strategy. DEC also underlined the need to develop cost-efficient approaches to the development of capital markets for small DMCs, in consideration of the low economies of scale in such markets.