

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The Asian Development Bank (ADB), the World Bank, and the International Monetary Fund (IMF) have been the key development partners supporting the Government of Bangladesh in undertaking financial sector reforms. ADB has been the lead funding institution for capital market development¹, while the World Bank focuses on strengthening the banking sector, and the IMF provides support through the Extended Credit Facility (ECF).

2. The World Bank's Financial Sector Reform Program on the banking system was launched in 1989.² The main objectives of this comprehensive program were to improve resource allocation in the country by moving towards a market based interest rate regime from an administered interest rate regime, and to reform in phases the financial institutions according to international best practices. In collaboration with ADB, the government also initiated a program for capital market development during that time. ADB provided technical assistance (TA) in several areas.³ In 1997, ADB approved a program loan—the Capital Market Development Program⁴—to address weaknesses in Bangladesh's capital market, which became apparent during the stock market crash in 1996. The loan approved amounted to \$80 million and was released in two tranches during 1998–2000. Several TA loans were also provided under the program.⁵

¹ ADB. 1993. *Technical Assistance to the People's Republic of Bangladesh for the Institutional Strengthening of the Securities and Exchange Commission*. Manila; ADB. 1994. *Technical Assistance to the People's Republic of Bangladesh for the Audit, Valuation and Study of Restructuring Options for the Investment Corporation of Bangladesh*. Manila; ADB. 1994. *Technical Assistance to the People's Republic of Bangladesh for the Study of Insurance Industry and Pension and Provident Fund Operations*. Manila; ADB. 1997. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Capital Market Development Program*. Manila; ADB. 1997. *Technical Assistance to the People's Republic of Bangladesh for the Establishment of an Automated Central Depository System*. Manila; ADB. 1997. *Technical Assistance to the People's Republic of Bangladesh for the Insurance Industry and Pension and Provident Fund Reforms*. Manila; ADB. 1997. *Technical Assistance to the People's Republic of Bangladesh for Capacity Building of Securities and Exchange Commission & Stock Exchanges*. Manila; ADB. 2000. *Technical Assistance to the People's Republic of Bangladesh for the Capacity Building of the Securities and Exchange Commission and Selected Capital Market Institutions*. Manila; ADB. 2001. *Technical Assistance to the People's Republic of Bangladesh for Preparing the Pension and Insurance Sector Project*. Manila; ADB. 2001. *Technical Assistance to the People's Republic of Bangladesh for Central Depository Capacity Building*. Manila; ADB. 2003. *Technical Assistance to the People's Republic of Bangladesh for Preparing the Financial Markets Governance Program*. Manila; ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Improvement of Capital Market and Insurance Governance Project*. Manila.

² Three international organizations were involved with the reform of the financial sector under this program: (i) the World Bank for recapitalization of the nationalized commercial banks; (ii) the IMF provided technical assistance in monetary policy and bank supervision; and (iii) USAID provided technical assistance in four areas— implementation of market-oriented central bank monetary policies, improvement of central bank supervision of the commercial banks, expansion of the private banks' share of commercial banking, and development of commercially viable nationalized commercial banks for privatization.

³ ADB. 1990. *Technical Assistance to Bangladesh for Capital Market Development Project*. Manila (TA 1351-BAN, \$100,000, approved on 8 August 1990). ADB. 1993. *Technical Assistance to Bangladesh for Institutional Strengthening of the Securities and Exchange Commission*. Manila (TA 1943-BAN, \$588,500, approved on 30 August 1993). ADB. 1993. *Technical Assistance to Bangladesh for Study of the Insurance Industry and Pension and Provident Fund Operations*. Manila (TA 2033 - BAN, \$577,000 approved on 27 December 1993). ADB. 1993. *Technical Assistance to Bangladesh on Audit, Valuation and Study of Restructuring Options for the Investment Corporation*. Manila (TA 2045-BAN, \$479,000, approved on 29 December 1993).

⁴ ADB. 1997. *Report and Recommendation of the President on a Proposed Loan and Technical Assistance Grants (financed from the Japan Special Fund) to Bangladesh for the Capital Market Development Program*. Manila.

⁵ ADB. 1997. *Technical Assistance to Bangladesh for Capacity Building of Securities and Exchange Commission and Stock Exchanges*. Manila (TA 2913-BAN, \$1.1 million, approved on 20 November 1997). ADB. 1997. *Technical Assistance to Bangladesh on Institutional Strengthening of the Privatization Board*. Manila (TA 2914-BAN, \$440,000, approved on 20 November 1997). ADB. 1997. *Technical Assistance to Bangladesh on Insurance Industry and Pension and Provident Fund Reforms*. Manila (TA 2915-BAN, \$500,000, approved on 20 November 1997).

3. After the completion of the first phase of the Financial Sector Reform Program, the World Bank continued to support the government's ongoing financial sector reforms, including the restructuring of nationalized commercial banks and capacity building of the central bank. In 2003, Bangladesh Bank embarked on the World Bank's Central Bank Strengthening Project⁶. The project cost totalled \$46.13 million and is to be completed in 2012. The project aims to achieve a strong and effective regulatory and supervisory system for the banking sector. Key components of the project include strengthening of the legal framework (including anti-money laundering and countering financing of terrorism), reorganization and modernization, and capacity building in the areas of research, prudential regulations and supervision, and accounting and auditing. The automation of the central bank's core functions, including enterprise resource planning, the banking application, credit information system, and the clearing house were implemented under the project. ADB also provided a TA grant for \$500,000 in 2011 that seeks to improve Bangladesh Bank's internal capacity by providing staff training to (i) prepare quality technical reports covering conventional monetary management and financial supervision, and (ii) implement new supervision guidelines.

4. In continuation of its support for the development of domestic capital markets, ADB approved the Improvement of Capital Market and Insurance Governance TA loan⁷ in 2006 for \$3 million. The ongoing TA loan is aimed at enhancing capacity and governance of the Securities and Exchange Commission (SEC), the two stock exchanges, and the Investment Corporation of Bangladesh, as well as strengthening the SEC's market surveillance system. The TA loan also focused on the enhancement of governance and capacity of the insurance sector. The establishment of a new regulatory authority for the insurance sector in 2010 was a key achievement under this loan.

5. The IMF has recently approved a 3-year ECF to Bangladesh in the amount of \$987 million. The ECF arrangement is designed to support the government's efforts in restoring overall macroeconomic stability and strengthening the external position. The ECF will also strengthen the banking sector by emphasizing financial sector governance to manage risks and support growth centered on managerial and operational controls in banks, particularly state-owned ones. The emphasis of the Second Capital Market Development Program on enhancing the depth and stability of the capital market neatly complements the IMF's ECF role in strengthening the banking sector.

Major Development Partners

Development Partner	Project Name	Duration	Amount (\$ million)
Sector: Financial Sector and Capital Market Development			
IMF	Extended Credit Facility Arrangement	2012–2015	987.00
World Bank	Investment Promotion and Financing Facility Project	2012–2014	272.00
World Bank	Central Bank Strengthening Project	2003–2012	46.10
ADB	Capacity Development for Bangladesh Bank	2011–2013	0.50
ADB	Improvement of Capital Market and Insurance Governance	2007–2012	3.00
ADB	Public-Private Infrastructure Financing Facility	2009–2013	165.50

ADB = Asian Development Bank. IMF = International Monetary Fund.

Sources: Asian Development Bank and the Government of Bangladesh.

⁶ World Bank. 2003. *Bangladesh – Central Bank Strengthening Project*. Washington D.C.

⁷ ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the People's Republic of Bangladesh for the Improvement of Capital Market and Insurance Governance Project*. Manila.

B. Institutional Arrangements and Processes for Development Coordination

6. The development coordination arrangement is guided by the Bangladesh Joint Cooperation Strategy (JCS) 2010–2015⁸, which is based on the principles of the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). The JCS has been agreed upon by all 18 partners.⁹ The JCS aims to strengthen aid coordination efforts among the government and its development partners to achieve aid effectiveness. Through JCS, harmonized and streamlined programs will be developed that support Bangladesh's development plans and strategies by providing a common platform for inclusive partnership between all development actors, including civil society (footnote 8). Overall, coordination of assistance to the financial sector by the development partners is well harmonized.

7. Development coordination in the Second Capital Market Development Program is program based and entails commitment from the highest level of the government and all the stakeholders in public and private sectors. Such commitment is a key factor for the success of the program in view of the strong vested interests in support of the status quo. Stakeholder consultations with the government and market participants were, therefore, actively pursued. Three national stakeholder and dissemination workshops were held during the program formulation that were attended by a total of 183 registered participants across 34 different organizations. An interagency steering committee is expected to oversee and guide the implementation of the policy actions outlined in the program.

C. Achievements and Issues

8. The experience of the previous Capital Market Development Program highlighted the importance of the government's commitment in the implementation process to ensure the success of a program.¹⁰ While the government was committed to developing the capital market, progress of the reforms initiated under the program was slow in some areas because of vested interests. In addition, a shortage of competent personnel to handle complex tasks coupled with frequent changes in high-ranking officials hindered the capacity building process. Therefore, the success of the Second Capital Market Development Program hinges on the government and all of the concerned stakeholders having strong ownership of the policy reforms.

D. Summary and Recommendations

9. The JCS will improve development coordination thereby making aid more effective in Bangladesh. It has institutionalized a mechanism by which the government and its development partners are held jointly accountable for making concrete and measurable progress towards greater aid effectiveness. Strong government ownership of the proposed program and enhanced coordination between ADB and the government through a project steering committee is recommended. With these components, the Second Capital Market Development Program would meet its objective of developing stable and transparent capital markets in Bangladesh.

⁸ Government of the People's Republic of Bangladesh. 2010. *Bangladesh Joint Cooperation Strategy 2010-2015*. "How to work more effectively together to deliver real development outcomes." Dhaka.

⁹ They are the Asian Development Bank, Australia, Canada, Denmark, the European Union, Germany, the Islamic Development Bank, Japan, the Republic of Korea, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United Nations, the United States, and the World Bank.

¹⁰ ADB. 2003. *Program Completion Report on the Capital Market Development Program Loan*. Manila.