

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Bangladesh	Program Title:	Second Capital Market Development Program
Lending/Financing Modality:	Program Loan	Department/ Division:	South Asia Department Public Management, Financial Sector and Trade Division

### I. POVERTY ANALYSIS AND STRATEGY

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The project supports poverty reduction development goals of the Government of Bangladesh and the Asian Development Bank (ADB) for Bangladesh. Bangladesh has made good progress in reducing poverty over the past decade despite a series of external shocks.

With positive economic growth, Bangladesh reduced poverty from 40% to 31.5% between 2005 and 2010. Rural poverty declined to 35.2% in 2010 from 43.8% in 2005, while urban poverty fell to 21.3% from 28.4% in the same period. Bangladesh's Sixth Five-Year Plan, 2011–2015<sup>1</sup> focuses on accelerating the growth rate of the economy as a “prerequisite for rapid reduction of poverty” by substantially boosting private sector investment. It is estimated that 77.2% of the investment requirements under the plan will stem from the private sector. The plan recognizes the important role the capital market can play in raising funds cost-effectively and in enabling investors to gain access to alternative investment opportunities, and the substantial negative impact that financial market instability has on the plight of the poor. Diversification away from a predominantly bank-based system of financial intermediation expands alternative sources of credit, thereby helping to limit the systemic impacts of economic shocks. The plan appreciates that capital markets can stimulate healthy competition with the banking sector, which under most circumstances results in lower financing costs for all borrowers. The plan, therefore, emphasizes specific capital market reforms to help Bangladesh diversify its financial system so that the country can realize its broad-based economic growth and socioeconomic development objectives—including poverty reduction.

ADB's country partnership strategy, 2011–2015<sup>2</sup> for Bangladesh is aligned with the government's long-term development agenda and clearly emphasizes the prioritization of private sector development to accelerate economic growth. Developing domestic bond markets and the financial sector is a necessary condition for private sector investment. Currently, Bangladesh's finance sector is dominated by commercial banks that are unable to finance the investments that the country requires. The program will support the government's efforts to “make finance and capital markets more efficient,” and hence help catalyze private sector investments necessary for economic growth such that it provides the foundations for sustainable productive employment and incomes for the growing Bangladeshi labor force. Specifically, ADB's financial sector strategy for Bangladesh, which is included in the new country operations business plan<sup>3</sup>, is based on the country's Sixth Five-Year Plan and lessons from ADB's previous financial sector interventions. According to the financial strategy, ADB will provide assistance for capital market development in 2011–2012 through the proposed program to complement and support the government's commitment to meaningful capital market reform.

#### B. Poverty Analysis Targeting Classification: General Intervention

**Key issues.** The project is classified as a general intervention because its proposed outputs will benefit all citizens including the poor through the development of efficient capital markets guaranteeing an optimal allocation of capital. By enhancing the availability of capital and optimizing its cost, it is expected that private sector investment will increase and finance infrastructure, spur economic growth, and create jobs. Improved governance of Bangladesh's financial and capital markets will help attract foreign investments including foreign direct investment, which generates increased employment opportunities including for skilled and unskilled labor. The intervention will have a broad and nationwide direct impact on inclusive growth; however, it has an indirect impact on poverty reduction. Improving Bangladesh's financial infrastructure is nevertheless crucial in the government's efforts to alleviate poverty. Higher growth rates will also bolster the revenues of the government, enabling it to increase spending on education, housing, and health, which will benefit the poorer segment of the population the most.

<sup>1</sup> Government of Bangladesh, Planning Commission, Ministry of Planning. 2011. *Sixth Five-Year Plan: FY2011–FY2015*. Dhaka.

<sup>2</sup> ADB. 2011. *Bangladesh: Country Partnership Strategy 2011–2015*. Manila.

<sup>3</sup> ADB. 2011. *Bangladesh: Country Operations Business Plan, 2012–2014*. Manila.

**Design features.** The capital market reforms of the program will play an important role in raising funds cost-effectively and in enabling investors to gain access to alternative investment opportunities, as well as mitigating the negative impact that financial market instability has on the plight of the poor. Diversification away from a predominantly bank-based system of financial intermediation expands alternative sources of credit, thereby helping to limit the systemic impacts of economic shocks. Capital markets can stimulate healthy competition with the banking sector, which under most circumstances results in lower financing costs for all borrowers. The program, therefore, emphasizes specific capital market reforms to help Bangladesh diversify its financial system so that the country can realize its broad-based economic growth and socioeconomic development objectives—including poverty reduction.

## II. SOCIAL ANALYSIS AND STRATEGY

### A. Findings of Social Analysis

**Key issues.** Bangladesh is a relatively homogenous country in terms of ethnicity (98% Bengali and 2% tribal non-Bengali Muslims) and religion (89.5 % Muslims, 9.6% Hindu, and 0.9% other). Social groups run along socio-economic and geographic lines, with urban poverty standing at 21.3% and rural poverty rates standing at 35.2% (as of fiscal year (FY) 2010). Accelerating growth rates is essential in supporting the government's poverty alleviation goals through both employment creation and the expansion of social services. While the government has made important achievements in meeting gender parity and is on track to reach the Millennium Development Goals on gender-related indicators, women remain especially vulnerable to poverty. Female labor force participation at 29.2% is significantly lower than male participation at 86.8%.

The poor and socially marginalized groups, such as women, suffer the most from stagnant or declining growth rates since female-led households are usually poorer, have fewer savings, and are the first ones to be laid off in economic crises because they often occupy low skilled positions. By catalyzing private sector investment, economic growth, and job creation, the program indirectly addresses their constraints.

### B. Consultation and Participation

1. Provide a summary of the consultation and participation (C&P) process during project preparation.
2. What level of C&P is envisaged during the project implementation and monitoring?  
☒ Information sharing   ☒ Consultation   ☐ Collaborative decision making   ☐ Empowerment

Was a C&P plan prepared for project implementation? ☐ Yes ☒ No

There was no C&P plan prepared because the program will have no impact on the environment and will not require resettlement or affect indigenous populations. During program preparation, several stakeholder meetings took place to incorporate all points of views in designing the proposed policy reforms.

### C. Gender and Development

**Gender Mainstreaming Category: No Gender Elements**

1. **Key issues.** All individuals will benefit indirectly from the program because private sector investment will spur higher economic growth and create employment opportunities.
2. **Key actions.** Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:  
☐ Gender action plan   ☐ Other actions or measures   ☒ No action or measure

The development of capital markets is likely to provide indirect benefits to all individuals by opening opportunities in accessing markets and financial resources. No adverse impacts on women are expected.

## III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	No Impact	No strategy required	No measures included in design
Indigenous Peoples	No Impact	No strategy required	No measures included in design
<b>Labor</b> <input type="checkbox"/> Employment opportunities	No Impact	No strategy required	<input checked="" type="checkbox"/> No action

<input type="checkbox"/> Labor retrenchment			
<input type="checkbox"/> Core labor standards			
<b>Affordability</b>	No impact	No strategy required	<input checked="" type="checkbox"/> No action
<b>Other Risks and/or Vulnerabilities</b>	No Impact	No strategy required	<input checked="" type="checkbox"/> No action
<input type="checkbox"/> HIV/AIDS			
<input type="checkbox"/> Human trafficking			
<input type="checkbox"/> Others (conflict, political instability, etc.)			
<b>IV. MONITORING AND EVALUATION</b>			
<p>Are social indicators included in the design and monitoring framework to facilitate monitoring of gender and social development activities and/or social impacts during project implementation? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Since the main benefits of the program on gender and social development activities are expected to be indirect, no social indicators have been included in the design and monitoring framework.</p>			

Source: Asian Development Bank.