SECTOR ASSESSMENT: FINANCE

A. Introduction

1. Objectives and Scope

1. This report assesses Asian Development Bank (ADB) support for financial sector operations in Bangladesh during 2011–2019. It was undertaken as part of a country assistance program evaluation (CAPE) by ADB’s Independent Evaluation Department (IED). The CAPE (i) provides an independent assessment and rating of the performance of ADB’s programs in Bangladesh, identifying the factors affecting this performance; and (ii) draws forward-looking lessons and recommendations for ADB’s next country partnership strategy (CPS). It draws on implementation experiences and lessons from earlier projects and examines how ADB interventions have contributed to the outcomes set out in ADB’s various CPSs, how they have aligned with the government’s development priorities, and how each addressed fundamental development needs.

2. Evaluation Framework and Methodology

2. The overall CAPE report evaluates ADB’s strategy and program for 2011–2020, covering two CPS periods. In the theory of change for this evaluation it is assumed that: “ADB’s investment in infrastructure and human capital development combined with support for improving the business environment and better governance, rural development, climate change, and disaster risk reduction, would help remove constraints to the higher levels of investment needed for economic diversification and for Bangladesh to achieve environmentally sustainable and inclusive economic growth.”

3. The overarching evaluation question for the CAPE was: to what extent did ADB support contribute to higher, inclusive, and environmentally sustainable growth, and to regional cooperation and integration? To answer these questions in relation to the financial sector, five subsidiary questions are posed. How did ADB financial sector support enhance: (i) human capital and gender equity; (ii) economic diversification; (iii) climate change and disaster risk reduction; and (iv) accelerated rural development; and (v) good governance and improved regulatory context?

4. The preparation of this assessment drew on a combination of desk reviews of project documents, interviews with project officers of ongoing projects and officers of completed projects without completion reports or other evaluation documents.

5. For five projects approved before 2011, the evaluation relied on available project completion reports (PCRs), PCR validation reports (PVRs), and project performance evaluation reports (PPERs), four of which were available. ADB support for the financial sector was not evaluated in detail in the CAPE carried out in 2009 because the portfolio was small. Similarly, the CPS final review validation (CPSFRV) in 2016 did not assess individual financial sector projects.

6. ADB support for the development of Bangladesh’s financial sector was concentrated in two areas: capital market development, and support for a state-owned company that provides finance for public–private infrastructure projects. ADB financed 13 discrete financial sector operations (projects and policy-

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1 From 1 January 2011 to 31 December 2019. The portfolio discussion in the main CAPE report includes approvals up to 30 September 2020.
3 Footnote 2. para. 39.
4 Projects approved before 2011 and with completion reports included: The Improvement of Capital Market and Insurance Governance Project, the Public-Private Infrastructure Development Facility, and the Small and Medium-sized Enterprise Development Project.
based programs) approving 20 loans and grants from 2006 to 2019 (Table 1). One project, the South Asia Sub-regional Economic Cooperation Trade Facilitation Program ($21 million), also covered Nepal and Bhutan. The remaining 12 discrete projects (totalling just under $1.5 billion) covered eight different areas of financial market development, the five largest being support for: (i) capital market development; (ii) finance for infrastructure investments using public and private resources, (iii) small and medium-sized enterprise development through increased access to finance; (iv) a line of credit for encouraging brick manufacturers to upgrade their kiln technology to reduce pollution, and (v) micro-enterprise development through improving access to finance. Much smaller interventions, funded by Japan Fund for Poverty Reduction (JFPR) grants were focused on microinsurance and finding cost-effective and efficient ways for overseas workers to remit their salaries. Two interventions, the Capital Market Development Program and the Public–Private Infrastructure Facility accounted for nearly 75% of ADB’s support for the sector. ADB has supported capital market development since 1993 and has used policy-based lending (PBL) and technical assistance (TA) for this purpose. Details are provided in the discussion of ADB’s strategy and program in Section C.

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Loan/Grant No.</th>
<th>Project Title</th>
<th>Value ($ million)</th>
<th>Approval Date</th>
<th>Actual or Revised Closing Date</th>
<th>Status</th>
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<tr>
<td>40517-013</td>
<td>2453 2454</td>
<td>Public–Private Infrastructure Development Facility</td>
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<td>22-01-2018</td>
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<td>42180-013</td>
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<td>Second Public–Private Infrastructure Development Facility</td>
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<td>02-10-2019</td>
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<td>42180-018</td>
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<td>31-12-2020</td>
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<td>45273-001</td>
<td>2865 2866</td>
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<td>43477-013</td>
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<td>51269-001</td>
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<td>36197-013</td>
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<td>45260-001</td>
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<td>42149-012</td>
<td>9153</td>
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<td><strong>Total</strong></td>
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<td><strong>1,489</strong></td>
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</tbody>
</table>

ADB = Asian Development Bank, MFF = multitranche financing facility.

* Including those approved earlier which were either ongoing or completed during the evaluation period.


3. Findings of Earlier Evaluations

7. ADB’s financial sector portfolio was not significant before 2009. The Bangladesh CAPE, 2009 observed that health and finance were sectors where ADB was not a major player. At the time of the CAPE, 2009, ADB support consisted of one Asian Development Fund (ADF) loan (approved in 2006) to improve the insurance regulatory framework, and 18 TA projects, so sector performance was not fully assessed. By the time of the CPSFRV in 2016, however, the sector had expanded to about 10% of ADB’s Bangladesh support, and over the period 2011–2019, it accounted for 9%.

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6. This sector assessment covers only approvals until the end of 2019. The portfolio discussion in the main CAPE report includes approvals up to September 2020.

7. Defined here as all that use the primary 5-digit project number, for example, the various tranches of a multitranche financing facility, and the loans that finance a project operation including additional financing.
4. Organization of the Report

8. Section B describes the Bangladesh financial sector and its development challenges. Section C provides a summary of the ADB strategy and assistance for the sector. Section D evaluates ADB sector support. Section E provides conclusions, lessons, and suggestions for future financial sector support.

B. Sector Context

9. This section summarizes key aspects of Bangladesh’s financial sector at the start of the CAPE period, as well as its performance and anticipated future challenges.

10. Bangladesh’s financial sector is mainly dominated by banks, but the country also has a sizeable microfinance sector. Financial institutions (banks, a relatively large microcredit financial system, a set of specialized financial institutions, and insurance companies), outweighed financial markets (stocks and bonds). In 2018, towards the end of the CAPE period, Bangladesh had 58 banks that intermediated over 86% of financial system savings. Eight of these banks operated under Shariah law. The microcredit system, which included 706 institutions, intermediated only 2% of savings, roughly the same amount as the insurance industry (Figure 1). The state’s presence in the ownership of financial intermediaries has declined over time but remains significant. It includes nine state-owned commercial banks, a number of development banks, and several specialized financial institutions. Capital markets, on the other hand, are centered on two stock exchanges—Dhaka and Chittagong. These markets trade in stocks and some government bonds. Trade in private bonds is negligible. Government bonds issued by the Treasury and sold retail as national savings certificates (NSCs) do not go through capital markets. Capital markets have gone through a number of upheavals: the Dhaka Stock Exchange (DSE) peaked in 2010 and 2018, but it plummeted after each of these.

Figure H.1. Bangladesh Savings by Type of Intermediary, 2018

8 Specialized financial Institutions include the House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, and Grameen Bank.
9 The total number of banks include nine state-owned commercial banks (SOCBs) and nine foreign banks.
10 In 2011, the volume of NSCs was roughly the same as that of T-Bills and T-Bonds together—about TK500 billion.
11 Data on stock volumes and other market indicators for the CAPE period do not seem to be available. The publicly available time series data are incomplete. See, for example, the World Bank World Development Indicators Database.
1. Bangladesh’s Financial Sector as the Start of the CAPE Period

11. The International Monetary Fund (IMF) and World Bank Financial System Stability Assessment (FSSA), 2010. Immediately before the beginning of the CAPE period, these two institutions assessed the situation of Bangladesh’s financial system. The assessment found that, while the banking system had improved since a similar assessment in 2003, the nonbank financial sector, except for microfinance, remained underdeveloped compared with those in most peer countries. While banks had been capitalized and had managed to reduce nonperforming loans (NPLs) to 7.3% of total loans in 2010, there were major issues, particularly in state-owned commercial banks (SOCBs). The report mentioned that NPLs in SOCBs were 15.7%, more than twice the average of the system. The FSSA also noted that the figure for NPLs was high despite loan classification, provisioning, and even capital figures being lower in SOCBs. In addition, non-prudential government interventions—such as interest rate ceilings, moral suasion, directed credit, and explicit requirements to ease debt service for some sectors of the economy—had increased risks, reduced transparency, and created inefficiencies. Across the financial sector, including capital markets, inadequate information, attributable to non-transparent accounting and reporting, affected market discipline and kept savings away from the system.

12. As for capital markets, some improvements were noted but the overall picture remained bleak. The ratio of equity market capitalization to gross domestic product (GDP) grew to about 14% at the end of 2008, compared to 2% in 2001, and listings increased by nearly 30% over that period. Growth in capital markets was fueled by a substantial increase in equity-market-related loans from banks. Equity markets remained grossly under-regulated by the Securities and Exchange Commission (SEC) and subject to extensive manipulation, as was found by a high-level probe in mid-2011. While a government bond market was at an early stage, the corporate bond market did not exist. Accordingly, long-term financing outside certain banks was scarce, which affected infrastructure financing, especially investments in power and housing. Improvements in credit information, the quality of bank lending, and access to credit were needed. The public Credit Information Bureau (CIB) had many shortcomings, including lengthy and manual operational processes. The absence of reputable credit rating companies put additional pressure on a local rating agency that was just beginning at the time of the FSSA.

13. Microfinance institutions were growing but were placing stress on the financial system. As reported by the FSSA, banks had increased their exposure to microfinance institutions, which were expanding into areas traditionally reserved for banks. Banks were opening microfinance units, further blurring the border between regulated banks and the largely unregulated microfinance institutions. The FSSA wondered whether Bangladesh microfinance institutions had the managerial and regulatory capacity for this expansion. While the FSSA welcomed the innovation and growth that the expansion entailed, it noted that it could be reflecting differences in the regulatory and tax environment. Accordingly, the FSSA recommended that the government expand regulations to include unregistered microfinance institutions.

14. This overall picture of Bangladesh’s financial sector was confirmed by the IMF’s 2011 Article IV Consultation. While the IMF Consultation restated the main points of the FSSA, it also highlighted the collapse of capital markets that took place at the time. The IMF noted that the main Dhaka index had fallen by about a third from its December 2010 all-time high (when total stock market capitalization exceeded 50% of GDP), after market valuation had tripled during 2009–2010. It also noted that attempts to cushion the fall by relaxing margin lending requirements for retail investors and providing market support through public financial institutions (including through the then new Bangladesh Fund) had increased fiscal risks and created moral hazards.

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13 NPLs for foreign banks were 3.0% and for private commercial banks they were 3.2%. IMF. 2019. Bangladesh 2019 Article IV Consultation. IMF Country Report 19/299, Washington, D.C.

14 One of the findings was that banks were holding too many stocks, which ended up destabilizing the market when banks had to adjust their holdings to comply with a (rather lax) limit on these investments.

15. **Regarding SOCBs, the IMF stressed the need for corrective action.** Their financial performance and capital needs, as well as those of specialized development banks, were evident looking at the financial system indicators. The IMF found that, for SOCBs, the capital adequacy ratios were overstated by most recognized standards. In 2007, the authorities had allowed special accounts to be set up on the asset side of these banks’ balance sheets, which reflected the difference between the market and the book value of SOCBs’ assets. These accounts effectively represented accumulated losses that had not been deducted from the banks’ capital base. Each state-owned bank was expected to amortize these losses against future earnings over a 10-year period. With nonperforming loans still weighing heavily on SOCBs, this amortization has not taken place. The IMF noted that the capital adequacy ratio of SOCBs would drop to 1.5% from the reported 9.5% at end-June 2011 if these accounts were deducted from capital.

2. **Sector Profile at the End of the CAPE Period**

16. The IMF’s 2019 Article IV Consultation showed growth in size and inclusiveness, but it also noted the deteriorating health of the traditional financial sector. The number of commercial banks had increased from 47 in 2011 to 58 in 2018, while the number of microfinance institutions had increased from 576 to 706 over the same period. From 2011 to 2019, these increases allowed the number of customers in commercial banks to almost double, from just under 49 million to over 92 million, and those in microfinance institutions to increase from 26 million to over 32 million. While other intermediaries also expanded, the most growth was noted in mobile money, where the number of registered users went from 125,000 in 2011 to over 67 million in 2018. Accordingly, in 2017, at least 50% of Bangladesh adults had access to at least one formal financial service. This growth and expansion reflected the government’s desire to increase financial inclusion.

17. **Within the banking system, financial soundness indicators have deteriorated, particularly in SOCBs.** While the capital adequacy ratio for the system declined from 11.4% in 2011 to 10.5%, the ratio for SOCBs declined from 11.7% to 1.9%. A large reason for the marked deterioration was an increase in SOCB NPLs from 11.3% to 30% in the same period—an increase that does not take into account the special accounts set up a decade before. As noted by the IMF, the worsening asset quality reflected several factors, including poor due diligence and compliance with risk management practices, as well as corporate governance issues. Moreover, the reported deterioration hid a growing trend of loan rescheduling and restructuring, including some granted by Bangladesh Bank. The IMF report called for a reassessment of the SOCBs, providing space for those that had a clear public mandate, while calling for the privatization or closure of the remaining ones. The financial indicators for the banking system, especially for SOCBs, are likely to have worsened with the pandemic, which has impacted economic activity in general and international trade in particular. However, Bank Bangladesh has suspended reporting of default loans since the start of the pandemic, in the hope of maintaining financial stability.

18. **As for capital markets, the market for stocks has fallen again, while the development of a market for public papers has been hindered by the marked increase in NSCs.** The DSE index, which had managed to recover vigor until 2018, has fallen since and remains at a historically low level. As a consequence of the shallowness of the market, Bangladesh’s market capitalization to GDP ratio is the lowest amongst the emerging countries in Asia and the Pacific countries—market capitalization was approximately $36 billion in 2019, about 13% of GDP, after having reached 25% of GDP in 2013 and 50% in December 2010. The ratio has fallen consistently; on the sell side, this reflects the lack of new large capital issues offered in recent times. A survey of over 103 firms revealed that many Bangladesh corporates are family-owned, keep their business within a tight circle of family members, rely on the creative use of internal capital to fund expansion, and are not interested in listing on the stock exchange. More generally, the absence of transparency in the market, especially regarding market operations and the financial

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16 Specialized development banks were reported by the IMF to represent only 6% of total banking system assets (IMF 2011).
statements of participants, seems to keep many agents away from both the buy and sell sides.\textsuperscript{18} As for the public bonds market, the IMF noted that most of the increased demand for these instruments had gone to NSCs, which now represent a market of about Tk2.5 billion, compared with just under Tk1.5 billion for public bonds and T-bills.

19. The International Finance Corporation (IFC) has pointed out that access to finance by the private sector is one of the main constraints on firm expansion and investment.\textsuperscript{19} Of the 103 firms surveyed in April 2019, 24% cited lack of access to finance as the most difficult challenge facing firms, followed by corruption (18%), political instability (11%), and informal competition (9%). The lack of access to finance by the dynamic private sector, composed mostly of smaller firms, seems to have hampered private investment, which has stagnated at around 23.5% of GDP since 2010. The current performance of private investment contrasts with the target of the Seventh Five-year Plan to increase private sector investment to 27% of GDP by 2020.

20. More than 98% of firms in Bangladesh employ fewer than 10 workers, and small and medium-sized enterprises (SMEs) account for close to 25% of GDP value added. From 2012, the number of large industries fell by 16.7% from 3,639 in 2012 to 3,031 in 2019 and the number of medium-sized enterprises fell by 50.6% from 6,103 in 2012 to 3,014 in 2019. By contrast, the number of small industries rose by 50% from 15,666 in 2012 to 23,557 in 2019.\textsuperscript{20} Growth in gross capital formation declined from 10.5% in fiscal year (FY) 2018 to 8.2% in FY2019. Only 13% of SMEs are in manufacturing—the rest are in services.

3. Development Needs and Priorities

21. Given the findings of the FSSA in 2009, the pressing priority in the financial sector was to assist Bangladesh to address the crisis in capital markets. As noted, the market collapsed from all-time highs in 2008 and 2010, having been subjected to a number of manipulations and improper operations. The most urgent need at the time was to address the regulatory and supervisory shortfalls, starting by propping up Bangladesh’s SEC. Beyond this critical step, Bangladesh needed and still needs support in addressing other weaknesses of its capital markets related to the workings of the markets themselves, as well as to the buy side and the sell side.

22. Another area of the financial sector in need of support was finding sources of long-term financing that would allow the private sector to play a role in investment and infrastructure financing. Most of the credit channeled through banks is short-term, and only borrowers who are able to reschedule their loans have effective access to long-term finance. Yet Bangladesh needs to open alternatives for private sector participation in infrastructure if it is to address some of its infrastructure challenges.

23. Although the microfinance sector was healthy and expanding, the FSSA identified a need for greater regulation and sophistication in microfinance operations. In addition, microfinance institutions (MFIs) need support from outside sources in order to be able to better compete with the banks, many of which have opened special windows to provide similar services. Aside from the banks’ size advantage and their funding through deposits, they are better positioned to structure lending operations in a more cost-effective way. MFIs’ limited exposure to institutions beyond the microfinance world has constrained their ability to innovate and bring in knowledge on alternative ways of doing business.

24. The banking system appeared to be in good financial health and to be improving at the beginning of the CAPE period. Banks were well capitalized and had managed to reduce their NPLs while increasing their provisioning. In addition, Bank Bangladesh had access to more direct sources of support

\textsuperscript{18} Neither the stock exchanges nor their regulatory authority published a credible stock exchange index that would allow for longer-term comparisons. Moreover, Bangladesh has yet to adopt the International Financial Reporting Standards as a mandatory standard for the firms issuing paper in its capital markets.

\textsuperscript{19} International Finance Corporation. 2019.

\textsuperscript{20} Bangladesh Bureau of Statistics. 2019.
on banking-related issues, from the IMF, the Bank for International Settlements, the Financial Stability Board, and the World Bank.

4. Government Strategy

25. The government’s broad policies for the CAPE period were defined in the Sixth Five-Year Plan (FY2011–FY2015), and the Seventh Five-Year Plan (FY2016–FY2020). While the objectives of these plans were for the most part defined in broad terms for the traditional sectors, they also outlined policies related to the financial sector in general, with special emphasis on the banking system, capital markets, and access to finance by the poor and disadvantaged.

26. Sixth Five-Year Plan (FY2011–FY2015). In taking stock of the banking system, the plan noted that the liberalization of the system in the 1990s had borne fruit but it also highlighted the marked deterioration in the performance of SOCBs due to higher NPLs. In this regard, the plan noted that “while some of the NPL reflected bad lending decisions, especially those given to weakly performing public enterprises, a large part reflected the non-servicing of loans by politically well-connected private business.” Accordingly, the plan called for an improvement in prudential regulations and supervision, more competition, and better management of SCOBs. To this end, Bank Bangladesh was to become more independent. Capital markets were seen as having gone through a significant market correction following a bull run, an upheaval rooted in weak supervision of the markets and their participants. The plan called for strengthened market surveillance by the SEC, as well as improved regulations on accounting, transparency, governance, and insider trading. Research and training of market participants would complement this. As for access to finance, the plan outlined an inclusive strategy of credit for the poor and underprivileged, while recognizing that the main challenge was to ensure that the programs were cost-effective and reached the intended beneficiaries. The plan also spoke about the need to regulate and license MFIs.

27. The Seventh Five-Year Plan (FY2016–FY2020). In general terms, the plan acknowledged that establishing stable financial markets and service systems called for “continuous reforms ranging across financial sector policies, financial infrastructure, regulatory, and supervisory institutions.” The plan noted that the banking system’s coverage had led to greater competition for market share, better regulations, and better supervision by Bank Bangladesh. The plan also saw room for improving SOCBs’ supervision and performance, and the need to adopt a real time gross settlement system for the banks. Further independence of Bank Bangladesh was also called for by the plan. The Insurance Development and Regulatory Authority would be strengthened and better regulations adopted. Capital markets would be improved by strengthening the SEC and providing a better enabling environment for new entrants to the stock market. In addition, the plan noted the need for the SEC to establish a separate clearing corporation for speedy settlements after trades. The plan also considered completing the demutualization of the stock exchanges and enhancing both the buy and the sell sides of these markets. Regarding access to finance for the poor and disadvantaged, the plan noted that the Microcredit Regulatory Authority had been created, and that licensing of MFIs had proceeded well. However, the plan also noted that access of the poor to organized finance remained highly constrained, because microcredit had grown in size but was unable to meet the growing demand. To complement these efforts, the plan mentioned that a separate Credit Information Bureau (CIB) for microfinance would be established.

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C. ADB Strategy and Program

1. Sector Strategy

28. In the CPS, 2011–2015, the financial sector was identified as one of six priority sectors for ADB support. The others were: energy, transport, urban, education, and agriculture, natural resources and rural development. The CPS was in line with the country's Sixth Five-Year Plan and the priorities of the ADB Strategy 2020. ADB did not have an explicit strategy for the financial sector, relying on the government’s demands. As Bangladesh’s financial sector, largely dominated by commercial banks, was unable to finance the country's investments needs, ADB would support the government’s efforts to make finance and capital markets more efficient. It would support capital market development; stronger monetary management; institutional arrangements for financing private infrastructure projects, especially public–private partnerships (PPPs) through the Public–Private Infrastructure Development Facility; and, depending on demand, local currency bond issues and nonsovereign operations. The intended outcome was a more efficient capital market for private sector enterprises, with equity market capitalization growing by 20%–30% by 2015 over the 2010 figure of 36.2% of GDP. The CPS planned for a financial sector portfolio that would be nearly 4% of the CPS’s total resource envelope.

29. The outcome for the CPS, 2016–2020 changed from equity market capitalization in the previous CPS to making the financial sector more inclusive, although the shape of ADB support to the sector was not explicit. The outcome would be measured by an increase in the ratio of credit to SMEs in total bank credit (20% in FY2014 to 25% in FY2020) and in private investment as a percentage of GDP (22% in FY2015 to 26.6% in FY2020). The value of ADB’s planned investment in the financial sector was not stated and proposed interventions were not identified. By contrast, CPS, 2011–2015 had a summary financial sector assessment attached as an appendix.

2. Program Implementation

a. Sovereign Lending Assistance

30. The full list of the 13 project operations that were financed by 20 loans and grants covered by this sector assessment is in Table 1. Of the 13 projects, one was a regional intervention that also included Bhutan and Nepal. The remaining 12 projects, valued at just under $1.5 billion, were in the following areas: (i) five loans for capital market development ($550 million)—ADB support entered its third phase during the evaluation period;23 (ii) six loans (in three phases) for investment in public–private infrastructure projects through the Infrastructure Development Company Limited (IDCOL, $535 million); (iii) two loans (in two phases) for support for SMEs ($276 million); (iv) one loan to be onlent for micro-enterprise development ($50 million); and (vi) two loans to finance the adoption of modern brick kiln technology in an effort to reduce pollution caused by this industry ($50 million); and (vi) small grants to support microfinance activities, insurance, and remittances. These interventions are discussed below.

31. Capital market development. This was the single largest area of ADB support in the financial sector. ADB support began in 1993 with TA,24 followed by the First Capital Market Development Program, approved in 1997, which aimed to broaden market capacity and restore investor confidence damaged by excessive speculation and widespread irregularities in the stock market. In 2005, the program was rated partly successful. Subsequently ADB pursued a less ambitious approach; follow up programs were deferred, reduced in value, and switched from PBLs to TA. Hence, there was a 15-year gap between the first and second Capital Market Development Programs, with the second approved in 2012.

32. ADB’s support for capital market development within the CAPE period addressed the issues raised by the 2010 crisis, as well as the need to develop long-term finance in Bangladesh. The crisis was rooted for the most part in weak regulation and supervision, as well as in a break in governance in the market.

23 The first phase was approved prior to this evaluation period.
24 Between 1993 and 2016, ADB provided 18 TA for capital market reform.
In addition, ADB’s support for capital market development opened an opportunity for it to support the development of long-term finance for both the private sector and the government, through risk capital (stocks), long-term financing (bonds), or shorter-term market financing (T-bills and commercial paper). Long-term finance in Bangladesh is limited. A capital market that functioned well could help channel capital toward areas that are essential for development and poverty reduction.\textsuperscript{25} When entrepreneurs cannot obtain long-term resources either from the banking system or from capital markets, they will find it difficult to invest and engage in capital formation. That may explain the high reliance on retained earnings as a source of capital in Bangladesh. Capital markets can help entrepreneurs by allowing them to attract risk capital through stocks, or to tap into a pool of savings with a longer-term perspective through bonds or other debt instruments.

33. ADB financial support for capital market development was scaled up significantly through the second and third Capital Market Development Programs. In 2006, ADB had used a TA project to lay the groundwork for its interventions in capital markets, and then moved to a combination of TA with PBL to help develop the institutions, and the necessary rules, regulations, and human capital required to develop a credible capital market in Bangladesh. While the second program had focused on stability in the aftermath of the market crash and developed a blueprint for capital market development, the third aimed to deepen some of the reforms, in line with the blueprint prepared by the second program. These programs laid the foundations for sustained market growth, through many legal and regulatory changes, including a securities ordinance, demutualization, and tax codes. They also set the foundation for reform of the insurance sector, in an effort to develop institutional investors, thus strengthening the buy side. The second program’s policy actions helped make the capital market deeper and more stable. The steps in demutualizing the DSE and the Chittagong Stock Exchange (CSE)—a key component of the reforms—enhanced the operational efficiency of both exchanges. The institutional capacity of the SEC was strengthened with the establishment of a capital market tribunal, implementation of a surveillance system, staff training, and improvements in remuneration.

34. The pace of progress slowed considerably under the Third Capital Market Development Program. Despite political support at the highest level, the third program took 5 years to be implemented, slowing down critical steps such as the increase in the staffing of SEC. The program had to be extended beyond its planned closing date of 30 June 2018, because, as of May 2018, only 9 out of 18 policy actions for the second tranche had been completed. Essential elements of the program took time to fall into place, delaying the positive effects of the policy package. Moreover, the third program fell short in creating the incentives for firms to be more active in the sell side on the stock exchange, which was one of the program’s main purposes.\textsuperscript{26} Coupled with negligible development of institutional investors that could prop up the buy side, these two forces restricted growth in capital markets.\textsuperscript{27} A further issue was the issue of NSCs by the Treasury, which are sold at the retail level. While NSCs may have an impact, their low denominations suggest that they cater to a less well-to-do segment of the market.

35. While the Second Capital Market Development Program was successful in achieving its intended objectives, the same cannot be said of the third. Reflecting their sequential nature, the second and third programs used the same set of indicators to assess overall performance. These indicators tracked the number of new firms listed, market capitalization as a share of GDP over time, and the total number of bonds issued (Table 2). The data reported in the completion report of the Second Capital Market Development Program showed that that program had achieved the first two objectives on stock market capitalization and new securities, but not the objective relating to bond issues.\textsuperscript{28}


\textsuperscript{26} For one thing, firms large enough to be in the stock exchange have easy access to the banks, where the paperwork threshold for accessing financing is lower than in capital markets. For another, firms that are controlled by a family or group are reluctant to lose control through open initial public offerings, and seldom use them.

\textsuperscript{27} ADB disengaged from the insurance sector in recent years. The World Bank now works with that sector, having programs of about $70 million–$80 million a year.

\textsuperscript{28} The number of private bonds issued remained at three between 2011 and 2015. The indicator hoped for these issues to increase to 12 by the end of the Second Capital Market Development Program.
Table H.2: Expected Outcomes of the Second and Third Capital Market Development Programs

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Second Capital Market Development Program (2012)</strong></td>
<td></td>
</tr>
<tr>
<td>Impact: A well-functioning financial system that supports basic capital</td>
<td>Private investment in GDP increases to 23% by FY2016 (baseline: 19.5% in FY2011)</td>
</tr>
<tr>
<td>and investment needs as well as Bangladesh’s longer-term economic</td>
<td>Long-term financing as a percentage of GDP increases to 0.5% by FY2016 (baseline: 0.09%</td>
</tr>
<tr>
<td>objectives</td>
<td>in FY2011)</td>
</tr>
<tr>
<td>Outcome: A deeper and more stable capital market</td>
<td>Stock market capitalization increases to Tk3,000 billion by FY2014 (baseline: Tk2,347.8</td>
</tr>
<tr>
<td></td>
<td>billion in July 2012)</td>
</tr>
<tr>
<td></td>
<td>Listing of new securities increases to 545 by FY2015 (baseline: 507 in FY2011)</td>
</tr>
<tr>
<td></td>
<td>Number of corporate bonds outstanding increases to 12 by FY2015 (baseline: three in FY2011)</td>
</tr>
<tr>
<td><strong>Third Capital Market Development Program (2015)</strong></td>
<td></td>
</tr>
<tr>
<td>Impact: A well-functioning financial system that supports basic capital</td>
<td>Outcome: Enhanced capacity and size of the capital market in a strong legal and</td>
</tr>
<tr>
<td>and investment needs, as well as Bangladesh’s longer-term economic</td>
<td>regulatory framework</td>
</tr>
<tr>
<td>objectives</td>
<td>Stock market capitalization increases to 20.4% of GDP by December 2017 (baseline:</td>
</tr>
<tr>
<td></td>
<td>17.6% in FY2015)</td>
</tr>
<tr>
<td></td>
<td>Listing of new securities increases to 570 by December 2017 (baseline: 555 in FY2015)</td>
</tr>
<tr>
<td></td>
<td>Total value of corporate bonds issued increases to Tk19 billion by December 2017 (</td>
</tr>
<tr>
<td></td>
<td>baseline: Tk15.6 billion in FY2014)</td>
</tr>
</tbody>
</table>

FY = fiscal year, GDP = gross domestic product.

36. **Targets set for stock market capitalization and listing of new securities have not been achieved under the Third Capital Market Development Program.** Market capitalization as a share of GDP has fallen consistently from 25% in 2013, to 17% in 2018. The decline reflects the weakness of the market, which translates, among other things, into a lack of new large capital issues offered in recent times. Both the buy side and the sell side have not developed as expected. While there are many explanations that can be offered for this, the lack of transparency regarding the market itself, and the financial health of major participants seems to weigh heavily on investors. Neither the SEC nor by the stock exchanges themselves can provide consistent time series data on the stock market performance covering the entire period of the CAPE. Moreover, Bangladesh has yet to fully adopt the International Financial Reporting Standards (IFRS) that are needed to lure foreign investors. At the lower end of the scale, small and medium-sized retail investors have high-yield alternatives to the Bangladesh capital markets, including NSCs.29

37. **Although the Second Capital Market Development Program was rated successful, its achievements have not been sustained.** According to the PVR, the programs outputs were delivered, except for that on corporate bonds (Table 2). Policy actions helped deepen and stabilize capital markets. The demutualization of the DSE and CSE—a key component of the reforms—was developed for the most part, enhancing the operational efficiency of both stock exchanges.30 The institutional capacity of the SEC was enhanced by the establishment of the capital market tribunal, implementation of a surveillance system, staff training, and improvements in remuneration.

38. **During the CAPE period, ADB support for capital market development was the largest single area of support for financial sector development in Bangladesh, and it was provided through a combination of PBL and TA projects.** While capital market development had been supported through sustained TA in previous years, ADB resorted to PBL to spur important policy reforms that were needed to strengthen capital markets. In the event, these reforms were not sufficient to bring about a sustained increase in either the demand or supply side of the market, both of which are essential for its development. The reforms did succeed in initiating steps to develop the SEC as a regulator and supervisor, although its staffing fell below expectations due to the long delays in the approval of its organization chart.

29 NSCs play an important role as a vehicle for nongovernment workers to save for their pensions, given that the existing pension scheme is limited to public servants.

30 Final steps for the demutualization, such as the entry of strategic investors into both exchanges, were part of the third program.
Financing of infrastructure. The second largest area of ADB support was financing for long-term investment in infrastructure projects, especially in renewable energy. The Public–Private Infrastructure Development Facility (PPIDF), is now in its third phase and aims to raise commercial financing for PPP projects, especially for those that will provide clean and affordable electricity to rural populations and SMEs. Both the first and second phases were disbursed well before the deadline, in part because these facilities were financing solar home systems (SHSs). However, the third phase will not finance SHSs, due to market saturation and funding from other donors. Private sector investment in infrastructure has been constrained, among other factors, by the challenging business climate, slow dispute settlement mechanisms, and the inadequate supply of long-term debt financing. Most commercial banks in Bangladesh focus on short-term financing and lack the technical ability to structure longer-term projects. Following support from ADB in 2010, the government adopted a PPP policy and strategy to attract domestic and international investors to partner with the government. A PPP Authority was established under the Prime Minister’s Office. The mandate to promote and finance PPP projects in Bangladesh was given to IDCOL, a state-owned nonbank financial institution established in 1997. At present, IDCOL is the only domestic financial institution that can catalyze international long-term foreign currency funding, and has the technical capability to structure and execute infrastructure and project financing with maturities of up to 8 years. Following ADB TA, IDCOL has started to raise its own funds by attracting commercial partners, although it does not yet have access to the bond market. However, Bangladesh’s BB credit-rating will increase its funding costs, so it is exploring ADB guarantees.

The first phase of the Public–Private Infrastructure Development Facility was approved in 2008 ($165 million) funded by a mix of ordinary capital resources (OCR) and ADF concessional financing. The objective of the facility was to increase the supply of infrastructure through greater private sector participation. IDCOL’s capacity in governance, environmental and social safeguards, and its ability to attract long-term financing was also supported through TA. The project, now in its third phase, is funded through a multitranche financing facility (MFF) and ADB has provided a total of $535 million in loans, and $0.8 million in TA.

In 2019, the PVR for the first phase of the Public–Private Infrastructure Development Facility found the program relevant but less than effective. Of five outputs, three were not achieved, and one was only partly achieved. IDCOL’s lending terms had not improved as envisaged. It had reduced the weighted average borrowing cost by 7.8%, below the targeted 20%; and average maturities were 7 years in FY2013 and 7.7 years in FY2017, against a target of 25 years by 2013. IDCOL’s ability to mobilize long-term capital was partly achieved but it had not managed to issue at least two debt market instruments as anticipated. The target for syndicated loans was achieved, since IDCOL arranged syndicated loans for five subprojects and co-arranged syndicated loans for three subprojects. However, its governance was not improved. IDCOL’s local rating declined from AAA in 2015 to AA in 2017 and a credit rating from an internationally accepted agency was not obtained. Enhanced capacity for the application of safeguards was achieved, while improvements in overall efficiency were not. The processing time for large subprojects was approximately 12 months—against a target of 6 to 4 months. While IDCOL’s loan portfolio grew from Tk1,221 million in 2008 to Tk42,037 million in 2017 due to increases in the renewable energy portfolio, particularly the SHS program, its growth has slowed down since 2014 because of the availability of grant financing for the country. As a result, IDCOL’s asset quality weakened from 2015 due to a poor collection rate in the SHS portfolio, which declined from 88% in 2015 to 38% in 2017. At the same time, IDCOL’s focus shifted to medium-sized to large infrastructure subprojects. As the project leveraged the initial $168 million investment by three times to $517 million, the internal rate of return after implementation was 17.4%, higher than the 12% discount rate, and the program was therefore assessed efficient and overall successful. The PVR considered that the enhanced capacity of IDCOL for PPP, as well as for supporting the legal and policy environment, would ensure the sustainability of the facility. ADB continued its support with the approval of two follow-on projects. TA to enhance IDCOL’s risk management capacity was also approved.

The second phase of the Public–Private Infrastructure Development Facility, approved in 2013, continued to provide long-term financing to catalyze private sector participation through IDCOL. New features included a reduction in the total cost of eligible subprojects from $30 million to $10 million to
facilitate a larger number of medium-sized to large infrastructure subprojects. This also eliminated financing for small and medium-sized infrastructure subprojects (up to $5 million), because funding for these was available elsewhere. ADB also placed a greater focus on women through training and awareness campaigns, especially in relation to renewable energy applications. There is no PCR against which to assess IDCOL’s performance. The design and monitoring framework (DMF) contained indicators that measured gross capital formation as a percentage of GDP, the project’s contribution to renewable energy in total electricity production, and the number of infrastructure subprojects under PPP and private sector participation modality. At the output level, the facility targeted: financial closures, the amount of additional private capital mobilized, the number of SHS installations, the number of end borrowers reached, especially women. There were no indicators in the DMF for assessing how the project increased employment, reduced poverty, or improved the lives of women or other development outcomes. Moreover, it is not clear how the ADB finance portfolio can be assessed if private investment in infrastructure is still severely constrained. There is little information on where projects are located, whether they have been successfully completed, or on the numbers of beneficiaries. Pending closure and an evaluation of the second phase, a third phase (using an MFF) was approved in 2017.

43. The third phase of the Public–Private Infrastructure Development Facility continued along the general lines of the first two, and aimed to address infrastructure deficiencies in Bangladesh in line with the objectives of the Seventh Five-Year Development Plan (FY2016–FY2020). The third phase aimed to finance private sector investments amounting to $650 million in eligible infrastructure subprojects catalyzed through the regular OCR component (for the first phase financing was $332 million and for the second, $293 million) and $15 million in private sector investments for renewable energy and energy efficiency subprojects. The outcome would be eight infrastructure subprojects, each in excess of $10 million, compared with five subprojects funded under the first and second phases. Two renewable energy subprojects (with each total subproject costing below $10 million) would be financed under the third phase using the concessional OCR resource envelope. One eligible subproject would be refinanced through take-out financing by IDCOL. TA would support IDCOL to strengthen its risks and treasury management, improve social and environmental risk mitigation and gender equality results, and develop a strategic plan.

44. Financing to SMEs. The third largest area of ADB support for SMEs is now in its second phase. The objective of the Small and Medium-Sized Enterprise Development Project ($76 million), financed by concessional OCR resources, was economic growth and poverty reduction through the development and growth of SMEs. ADB support is very small, likely less than 1% of the size of the market. Projected outcomes included: (i) growth in the number and size of commercially viable SMEs, especially in rural and non-urban areas with an emphasis on women-led SMEs; and (ii) increased employment in the SME sector. The project provides medium- and long-term credit through onlending by participating financial institutions (PFIs) to SMEs, and enhanced capacity for women entrepreneurs. The DMF had three outcome indicators: (i) 8% increase in the number of SMEs in non-urban and rural areas over the next 3 years (from 830,000 non-metropolitan SMEs); (ii) 8% increase in SME employment over the next 3 years; and (iii) 10% increase in women-led SMEs in three pilot sites. These three indicators were achieved, with one-third of the resources going to medium-sized enterprises, and the remainder to small enterprises. The program does not have sectoral restrictions or allocations. The average growth in the number of SMEs during 2007–2013 was 30% per year, exceeding the project’s 8% target. The average growth in SME borrowers of 15% during 2010–2014 supplemented this. The project created 8,933 jobs over a 3-year period, an increase of 12.5% from 2010 to 2013, exceeding its 8% target. The targeted 10% increase in women-led SMEs was also realized. Based on a case study conducted by ADB on the project, the number of women-owned SMEs in pilot districts increased by over 10%. From 2010 to 2014, the number of women-led SME borrowers increased by 209%, with a cumulative average annual growth of 33%, higher than the targeted 10% during the period. The project enhanced the growth in the number and size of commercially viable SMEs, particularly in rural and non-urban areas. It helped increase the number of women-led SMEs as well as employment in the SME sector.
45. **A TA grant of $500,000\(^{31}\) provided additional support for women.** The TA identified constraints on and opportunities for women’s entrepreneurship, provided advocacy for gender-responsive regulations and policy reforms, trained women entrepreneurs, and disseminated findings and follow-up activities. The technical assistance completion report assessed the TA highly successful since it achieved the impact of developing women’s entrepreneurship in six selected districts and the outcome of enhanced capacity of women-led SMEs in accessing financial resources and services. The TA supported the introduction and successful completion of a gender action plan to promote women entrepreneurship. The project’s emphasis on women—through a fund allocation for women entrepreneurs—addressed the need for more equitable access to resources that was not included in previous support.

46. **The disbursement of credit to women was 6.4% of the total facility, well below the 15% target.** The PCR stated that the target was ambitious given that women entrepreneurship was relatively new and that credit disbursement to women entrepreneurs was 3.9% in 2013 at the national level. Hence, the 6.4% disbursement was considered reasonable. The program identified 900 women entrepreneurs in six districts and trained 771 in business improvement and expansion, preparing business plans, and accessing institutional finance. Of the 900 women, 293 received bank loans and 91 received loans through the credit facility. The project financed a total of 439 women entrepreneurs, of whom 91 received training under the TA program. The number of women entrepreneurs applying for bank loans and nonbank financial institutions (NBFIs) was 13,831 in 2010. By 2014, it had increased to 42,730, an increase of 208.9% (32.6% per year), which significantly exceeded the 20% DMF target. Nevertheless, the emphasis on women-owned SMEs has faded in the second SME program.

47. **The objectives of the Second Small and Medium-Sized Enterprise Development Project were the same as the first.** Indicators targeted a fully disbursed $200 million credit line to SMEs outside metropolitan areas, with $20 million reserved for women entrepreneurs. The project supported at least 15 new incubation facilities at educational institutions to build the capacity of entrepreneurs, including women, to access finance. At least 200 SME entrepreneurs would be trained on how to form alliances in clustering and networking to help small firms to compete, grow, and cooperate with larger firms; and 50 staff from PFIs would be trained in SME cluster financing. Gender-related elements and/or activities that addressed the needs of women entrepreneurs would be incorporated. The project expected to achieve a 25% increase in the ratio of SME credit to total loans in the banking sector over the 4-year period (2014 baseline: 20.2%) and it anticipated that SME sector employment would grow by 5% (2014 baseline: 38.1 million people employed). However, a back-to-office report (BTOR) in 2016 reported some initial implementation issues. The TA project was behind schedule because of the time it took to field consultants. As nine of the 25 participating PFIs had not made loans to women borrowers, more efforts were needed by Bangladesh Bank, the Small and Medium Enterprise Development Fund (SMEF), and PFIs to target women.

48. **There is pressure from the authorities to cap onlending rates below 10%.** A Parliamentary standing committee inquiry identified high interest rates as a key constraint and demanded that the government reduce bank onlending rates. This was communicated to ADB after loan negotiations and Board approval. Such a cap would conflict with ADB’s financial intermediary policy. There is specific language in the legal agreements of the Second Small and Medium-Sized Enterprise Development Project that gives discretion to Bangladesh Bank to exercise some level of control over the interest rates. Bangladesh Bank agreed that its circular on the second project to PFIs would mention that its onlending rate would be market-based and “guided by the prevailing rules, regulations and directives of Bangladesh Bank.” This means that Bangladesh Bank as the regulator can introduce interest rate capping for the entire banking sector, which would apply to the Second Small and Medium-Sized Enterprise Development Project. However, a specific reference to capping onlending rates cannot be made in any official project documents or correspondence. The Bank and Financial Institutions Division (BFID) rejected this agreement by arguing that capping was permitted under the first project for women entrepreneurs. BFID asked ADB to consider reducing the original base rate of 5% (the Bangladesh Bank rate) to 3%–4% to provide an incentive for the banks to access the funds under second project in an environment of declining interest.

\(^{31}\) Approved under the regional TA Development Partnership Facility for South Asia funded by Australia and ADB.
rates. ADB explained that this would have to be approved by the ADB Board of Directors. There were further discussions on the numerous TA changes proposed by Bangladesh Bank and BFID, especially the complete removal of the women entrepreneurs support component and a justification for the introduction of a $200,000 allocation for training and capacity building initiatives—primarily overseas study tours—for the members of the project management unit of Bangladesh Bank. ADB expressed disappointment that these suggestions for design changes to the loan and TA were not brought up during loan processing as the design of the Second Small and Medium-Sized Enterprise Development Project was in response to a concept paper that Bangladesh Bank had provided in July 2019 and all project components were clearly communicated to all stakeholders in numerous aide memoire and e-mail exchanges.

49. **Under the Second Small and Medium-Sized Enterprise Development Project**, the share of ADB financing in each sub-loan has increased from 60% to 83%. A BTOR in November 2019 noted that the PFI contribution of 15% had been waived, allowing ADB to finance 75% of project cost. This means ADB can now finance 83% of each sub-loan. The 4-year project implementation period has also been extended by a year from April 2020 to June 2021 due to delays in signing the loan agreement. However, if the project is to be completed by June 2021, disbursement would need to double in 2020. To speed up disbursements and improve support for SMEs, especially women entrepreneurs, it was agreed that Islamic banks would be included as participating banks; the coverage for women borrowers in terms of sectors and loan types would be increased; the constraint on loans for working capital would be reviewed; and a proposal for increasing loan sizes would be considered. As of December 2019, ADB disbursement of $40 million was meeting the annual target. While progress has been sustained throughout the life of the Small and Medium-Sized Enterprise Development Projects, the recent pandemic is likely to extract a toll, given that many SMEs are now facing shortages of working capital.

50. ADB also provides financial support for microfinance development through microfinance institutions. A $50 million line of credit to finance microfinance institutions was approved in 2018. Given that the microfinance market is valued at about $3 billion, ADB’s contribution is limited. The projected outcome was increased access to finance by microfinance institutions so the entrepreneurs eventually being able to access commercial banks, which have a minimum level of $10,000 per loan. Anticipated outputs included: expanded MFI funding for microenterprise loans; enhancement of MFIs’ capacity for microenterprise lending; and an extension of MFIs’ microenterprise development support. Progress in increasing the size of the loans has been slow; loan sizes have moved from a few hundred dollars per operation to about $1,500, still far from the $10,000 requirement for commercial banks. The project also includes TA ($0.5 million) for capacity building in strengthening internal risk management and developing mobile microfinance and e-finance.

51. **The Financing Brick Kiln Efficiency Improvement Project.** This project was targeted specifically at about 5,000 brick manufacturers. Its main objective was to reduce the high levels of pollution caused by outdated kiln technology. Brick manufacturing is energy-intensive and a source of greenhouse gas (GHG) emissions and fine particulate pollution. The project provided a credit facility of $50 million to Bangladesh Bank for onlending to financial intermediaries to finance the construction of energy-efficient and environmentally superior brick kilns. At this stage, the program is financing 19 manufacturers out of a total of 5,000, with financing per manufacturer ranging between $5 million and $10 million. The program’s expected impact was a 10% reduction in annual GHG emission from the brick sector by 2018, and a 20% reduction in fine particulate pollution. The anticipated outcome was the replacement of polluting kilns with more energy-efficient kilns. The project was approved in 2012, with the expectation that at least 200 fixed chimney kiln upgrades, 20 vertical shaft brick kilns, and 5 hybrid Hoffman kilns and/or tunnel kilns would be approved by December 2015. It was anticipated that the number of fixed chimney kilns would fall by 50% by December 2015 from a baseline of 4,490. The project took 8 to 9 years to complete, despite having had TA at the beginning. However, government ownership was very strong, and the government kept extending the project.

52. **JFPR grants to finance services for the poor.** Two JFPR grants supported innovative interventions to improve financial services for the poor. One project aimed to develop Bangladesh’s microinsurance
services, and the other sought to reduce the cost to migrant workers of remitting funds to their families. By working through Bangladesh’s extensive network of microfinance institutions, both projects had the potential to achieve a significant impact in terms of reach and of reductions in the cost of financial services for the rural poor. The government had prioritized microinsurance in its Sixth Five-Year Plan to facilitate insurance sector growth for the poor and vulnerable groups. The insurance regulatory agency, Palli Karma Sahayak Foundation (PKSF), had strong ownership of this initiative, and the country-wide network of MFIs had the capacity to reach thousands of households. The insurance project aimed at reducing the vulnerability of rural households, especially those headed by women, to exogenous shocks. Rural households would be surveyed and microinsurance products piloted based on the results of an actuarial survey. The outcome would be greater awareness and availability of microinsurance products. ADB’s self-evaluation in July 2016 found that the project was successful. In terms of the numbers of people reached, it exceeded expectations. Three actuarial-based micro insurance products were implemented. About 5.54 million insurance policies were issued to over 10 million poor people, and 23,000 claims were paid out. At the time it was the largest microinsurance pilot in the country, and policy holders were interested in renewing their policies, suggesting the program was sustainable.

53. **Notwithstanding its reach, the project encountered sustainability issues.** First, the most successful insurance product, in terms of numbers of households reached, was attached to the provision of microloans. This insurance is mandatory and had existed before the project but had not been formalized. So, the extent to which the project extended the supply of microinsurance beyond that which already existed is not clear. The two new microinsurance policies piloted by project, one for livestock (acquired through a microloan) and one for health insurance, were less successful in terms of both reach and sustainability. Moreover, the project did not attract an international reinsurance company willing to reinsure these insurance products, particularly in the absence of microinsurance regulation. To make up for this shortfall, ADB entered into a re-insurance agreement with PKSF but, as no events occurred, the viability of insurance products in the occurrence of a catastrophic event has not been tested. PKSF set up a covariant risk fund from its own resources after project completion. However, to ensure the long-term sustainability of the scheme, an alternative reinsurance mechanism is needed to transfer covariant risk to the private sector instead, containing the risk within PKSF. Finally, the $2 million grant, approved in 2008, was completed 2 years and 6 months later than expected, and used just over half the funding available. This suggests that some project activities were not completed—for instance, the project could not fully computerize data on all microfinance institutions.

54. **ADB could have done more to build on this innovative and low-cost project.** The project is a good example of an innovative intervention with the potential to benefit large numbers of poor people. ADB could have done more to link the regulatory needs of the microinsurance sector using PBL and its policy influence. ADB drafted new microinsurance regulations but it is not clear that these were formally adopted within the project period. As a large survey was undertaken, stated to be one of the largest in the country, ADB could have done more to use the survey results either by undertaking further analysis, or by sharing them with the government and other partner agencies. What the survey is and what information it holds is not clear.

55. **The second JFPR grant did not achieve its intended objectives.** The project had three components: (i) reducing the cost of remittances for migrant workers, (ii) raising awareness of the new remittance services, and (iii) providing training and support to returning workers to start their own microenterprises. The first objective was changed, however. Instead of developing affordable and safe remittances through developing a partnership between commercial banks and microfinance institutions, 88% of grant funds were used to install a real time gross settlement system at Bangladesh Bank following a government request. The second objective used only 1% of grant funds. The third objective turned into preparation of a training manual, but no training was provided. The project was self-rated partly successful, based on the real time gross settlement system at Bangladesh Bank. Although the new system at Bangladesh Bank was installed and training material was prepared, there is no evidence that this had an impact on remittances. No training was conducted under the project and none of the performance indicators were achieved. Implementation started 18 months after approval and took 15 months longer than expected to complete. Detailed diagnostic work and wider policy dialogue, beyond government and bank officials,
would have helped ADB to better understand the remittance problem. An aide memoire is not sufficient to ensure project ownership.

Table H.3: Ratings of Closed Financial Sector Projects with PCRs, PVRs, PPERs or with Review Missions

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Approval Date</th>
<th>PVR</th>
<th>Relevance</th>
<th>Effectiveness</th>
<th>Efficiency</th>
<th>Sustainability</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing an Inclusive Insurance Sector</td>
<td>2008</td>
<td>2016</td>
<td>Relevant</td>
<td>Highly Effective</td>
<td>Less than Efficient</td>
<td>Likely Sustainable</td>
<td>Successful</td>
</tr>
<tr>
<td>Institutional Support for Migrant Workers Remittances</td>
<td>2010</td>
<td>2017</td>
<td>Less than Relevant</td>
<td>Less than Effective</td>
<td>Less than Efficient</td>
<td>Likely Sustainable</td>
<td>Less than Successful</td>
</tr>
<tr>
<td>Improvement of Capital Market and Insurance Governance</td>
<td>2006</td>
<td>2015</td>
<td>Relevant</td>
<td>Effective</td>
<td>Less than Efficient</td>
<td>Likely Sustainable</td>
<td>Successful</td>
</tr>
<tr>
<td>Second Capital Market Development Program</td>
<td>2012</td>
<td>2016</td>
<td>Highly Relevant</td>
<td>Effective</td>
<td>Efficient</td>
<td>Likely Sustainable</td>
<td>Successful</td>
</tr>
<tr>
<td>Public-Private Infrastructure Development Facility</td>
<td>2008</td>
<td>2019</td>
<td>Relevant</td>
<td>Less than Effective</td>
<td>Efficient</td>
<td>Likely Sustainable</td>
<td>Successful</td>
</tr>
<tr>
<td>Small and Medium-sized Enterprise Development</td>
<td>2009</td>
<td>2016</td>
<td>Relevant</td>
<td>Effective</td>
<td>Less than Efficient</td>
<td>Likely Sustainable</td>
<td>Successful</td>
</tr>
</tbody>
</table>

PCR = project completion report, PPER = project performance evaluation report, PVR = project completion report validation report. Sources: Independent Evaluation Department.

b. Technical Assistance

56. **TA was provided in all lending operations.** A summary of the amounts and status is in Table 4.

Table H.4: Technical Assistance in the Financial Sector

<table>
<thead>
<tr>
<th>Project No.</th>
<th>Loan or Grant No.</th>
<th>Project Title</th>
<th>Amount ($ million)</th>
<th>Approval Date</th>
<th>Planned Closing Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>43477-012</td>
<td>7811</td>
<td>Second Capital Market Development Program</td>
<td>0.6</td>
<td>23-05-2011</td>
<td>15-11-2012</td>
<td>Closed</td>
</tr>
<tr>
<td>43477-013</td>
<td>8228</td>
<td>Enhancing Efficiency of the Capital Market</td>
<td>0.8</td>
<td>28-11-2012</td>
<td>28-08-2015</td>
<td>Closed</td>
</tr>
<tr>
<td>45253-001</td>
<td>8512</td>
<td>Third Capital Market Development Program</td>
<td>0.5</td>
<td>25-11-2013</td>
<td>31-12-2015</td>
<td>Closed</td>
</tr>
<tr>
<td>45253-002</td>
<td>8994</td>
<td>Third Capital Market Development Program</td>
<td>0.7</td>
<td>20-11-2015</td>
<td>21-10-2020</td>
<td>Active</td>
</tr>
<tr>
<td>45088-001</td>
<td>7841</td>
<td>Capacity Development for Bangladesh Bank</td>
<td>0.5</td>
<td>26-07-2011</td>
<td>28-10-2014</td>
<td>Closed</td>
</tr>
<tr>
<td>42249-013</td>
<td>8144</td>
<td>Capacity Building for Disaster Risk Finance</td>
<td>0.5</td>
<td>28-08-2012</td>
<td>30-11-2015</td>
<td>Closed</td>
</tr>
<tr>
<td>45273-002</td>
<td>8197</td>
<td>Supporting Brick Sector Development</td>
<td>0.8</td>
<td>22-10-2012</td>
<td>30-06-2018</td>
<td>Closed</td>
</tr>
<tr>
<td>47022-001</td>
<td>8436</td>
<td>Participation in SASEC Trade Facilitation</td>
<td>1.5</td>
<td>20-08-2013</td>
<td>31-12-2017</td>
<td>Closed</td>
</tr>
<tr>
<td>36200-023</td>
<td>9068</td>
<td>Second Small and Medium-Sized Enterprise Development</td>
<td>2.0</td>
<td>19-01-2016</td>
<td>18-01-2021</td>
<td>Active</td>
</tr>
<tr>
<td>42180-016</td>
<td>9344</td>
<td>Capacity Development Infrastructure Company Ltd</td>
<td>0.8</td>
<td>18-07-2017</td>
<td>31-03-2021</td>
<td>Active</td>
</tr>
<tr>
<td>52121-001</td>
<td>9602</td>
<td>Knowledge Solution for Inclusive and Sustainable Development</td>
<td>2.0</td>
<td>01-10-2018</td>
<td>31-08-2021</td>
<td>Active</td>
</tr>
<tr>
<td>51269-001</td>
<td>9652</td>
<td>Capacity Development for Microenterprise Development</td>
<td>0.5</td>
<td>26-11-2018</td>
<td>31-12-2020</td>
<td>Active</td>
</tr>
</tbody>
</table>

SASEC = South Asia Subregional Economic Cooperation.
Source: Independent Evaluation Department.

c. Nonsovereign Operations

57. **ADB nonsovereign operations strategy.** For the financial sector, ADB’s goal was to support an improvement in the safety and working conditions in the textile and garment industry. Since 2013, Bangladesh’s garment industry has increased its annual revenue from $19 billion to $34 billion, making the country the second largest exporter of garments in the world, with the sector accounting for 84% of Bangladesh’s total export earnings. The industry contributes more than 11% of the country’s GDP, and employs 4.2 million workers, of whom nearly 80% are women. There were over 4,600 companies exporting garments in 2019. After two major disasters—the 2012 Tazreen factory fire and the 2013

32 https://www.bqmea.com.bd/home/pages/TradelInformation
34 Footnote 32.
Rana Plaza building collapse—the government signed the Bangladesh Sustainability Compact with the European Union, the United States, and the International Labour Organization. The compact is built on short- and long-term commitments related to three interlinked pillars: (i) respect for labor rights, (ii) structural integrity of buildings and occupational safety and health, and (iii) responsible business conduct. Under the second and the third pillars of the compact, the innovative responsible business conduct initiatives through the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety have made a considerable positive difference.35

58. **In addition to their impact on worker safety, the garment plants are also large water polluters and high consumers of energy.** The most significant issue is the lack of effluent treatment plants (ETPs), even though they are mandatory. Experts estimate that only 30% of dyeing and printing factories have installed ETPs.

59. **Financing a transformation.** To transform these key industries in a sustainable manner, access to long-term funding is required for factories to invest in remediation and water pollution control. However, the financial sector in Bangladesh is underdeveloped, with long-term funding available to banks primarily through international financial institutions. The total costs of implementing the corrective action plans (CAPs) prescribed by the accord or the alliance are $250,000–$400,000 per factory. The costs are much higher if a factory needs to be relocated and a new building is required. Many of the compliant factories also need financing for expansion, as export-driven demand is shifting towards factories that comply with the accord or alliance standards. With the construction of new garment factories or the expansion of existing factories, ETPs need to be built, modified, or expanded, which creates additional financing needs.

60. **Working with two commercial banks.** ADB saw an opportunity to support this effort by teaming up with two local commercial banks that had experience in working with international financial institutions (IFIs): BRAC Bank (a retail bank) and Eastern Bank (mostly a corporate bank). The International Finance Corporation (IFC) was a significant shareholder in BRAC Bank, and both banks had similar credit lines with IFC. Both were initially open to following ADB’s safeguard policies—a requirement in these operations.36 The operation with BRAC Bank, initially set for $30 million, was reduced to $15 million before Board approval at the request of the bank in August 2015.37 BRAC Bank repaid the loan in full following a recent ADB team visit. The operation with Eastern Bank was approved by the Board for $20 million in October 2016 and is still operative.38

61. **Impact of the pandemic.** Due to the pandemic, many firms in the industry have had to close due the cancellation of orders by foreign customers. According to a recent report by the Bangladesh Garment Manufacturer’s Export Association (BGMEA) in April 2020, factories reported that exports of 980 million items worth $3.2 billion had been cancelled. As a consequence, 2.3 million workers are reported to have been laid off or released, leaving them without income and with no choice but to return to their homes in slums or villages.39

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35 The Alliance is for the most part with American counterparts, whereas the Accord includes other countries. These operate through inspections of plants, leading either to a corrective action plan or to its closure.
36 ADB’s terms are more stringent than IFC’s. The banks must show that their loans will not have Category A impacts. Also, ADB required that loan beneficiaries would need to be members of the accord and or the alliance, have a local environmental impact assessment, and a labor report that shows there will be no child labor.
37 ADB. 2015. Report and Recommendation of the President to the Board of Directors: Proposed Loan to BRAC Bank for Sustainable Projects in Bangladesh. Manila.
D. Evaluation of ADB Financial Sector Support

1. Relevance

Overall, this assessment finds ADB support for the financial sector relevant. ADB’s financial sector program addressed issues and concerns that were evident at the beginning of the CAPE period. Capital markets were in crisis, and Bangladesh was trying to boost its long-term finance and strengthen its microfinance industry. These priorities were mentioned in the government’s Sixth and Seventh Five-Year Plans. From the perspective of ADB’s corporate priorities, its interventions, in different degrees, sought to reduce poverty and inequality, enhance environmental sustainability, promote rural development and food security, foster gender equality, make cities more livable, and strengthen governance and institutional capacity. The relevance of the program was lessened by the choice of instruments and by the composition of the program. Moreover, developments in capital markets suggest that the program design was wanting, and that further analytical work may have been warranted. Similarly, the cancellation by one of the two banks used to support improvements in the garments industry calls into question the quality of the preparatory work of that operation. Results frameworks were, for the most part, weak and difficult to track.

Bangladesh’s development needs and challenges. ADB’s support to Bangladesh through its financial sector operations was relevant in light of the country’s development needs and challenges. At the beginning of the CAPE period, Bangladesh was facing a severe crisis in its capital markets, and was in the process of developing its long-term financial instruments and its microfinance institutions. ADB’s financial sector program addressed those issues. Moreover, the Sixth and Seventh Five-Year Plans highlighted the need to address issues in capital markets, while emphasizing the need to find solutions to provide credit for the poor and underprivileged. Again, ADB’s financial sector program helped Bangladesh respond to issues that were seen by the government as central. The relevance was underscored by the support provided by several other development agencies to ADB’s financial sector operations.

ADB’s corporate strategies. While ADB did not spell out a strategy for its support for Bangladesh’s financial sector, this assessment finds that support to have been relevant to ADB’s corporate strategies, Strategy 2020 and Strategy 2030. In Strategy 2030, ADB sought to reduce poverty and inequality, enhance environmental sustainability, promote rural development and food security, foster gender equality, make cities more livable, and strengthen governance and institutional capacity. Different elements of ADB’s financial sector program supported all of these corporate objectives. Poverty and inequality were addressed through several programs, most noticeably those on microfinance, and those supporting the conversion of challenging industries, such as bricks kilns or the garment industry. Moreover, these operations, together with the long-term financing of alternative energy sources, supported environmental sustainability and efforts to make cities more livable. All the microcredit operations had a strong gender component, with special attention paid to helping women entrepreneurs. Similarly, the microcredit programs devoted resources and attention to helping rural microenterprises, which are critical in the country’s food supply chains. ADB also invested heavily in strengthening governance and developing institutional capacity, especially through the capital markets program.

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40 Four PCRs have been produced for financial sector projects: (i) Improvement of Capital Market and Insurance Governance Project (approved September 2014); (ii) Second Capital Market Development Program (approved September 2015); (iii) Public-Private Infrastructure Development Facility (approved September 2018); and (iv) Small and Medium-sized Enterprise Development Project (approved August 2015).

41 The Islamic Development Bank and the World Bank cofinanced ADB’s efforts to prop up alternative energy sources in Bangladesh, and, in the case of the World Bank, had their own program for a similar purpose. ADB adjusted its program in this area, to factor in the progress that was being made by other development partners. Similarly, the Japan International Cooperation Agency and the World Bank cofinanced ADB’s efforts to foster long-term finance for the development of infrastructure, helping finance ADB’s IDCOL program. ADB’s program for brick kilns was cofinanced by the Clean Energy Fund. JFPR grants financed ADB’s work on microinsurance, remittances, and some of the work on SME financing.
Relevance of design and instruments. While the use of a PBL was justified to support the adoption of the critical policy measures needed to address the crisis in capital markets at the beginning of the CAPE period, it is not clear why the follow-up program was also structured as a PBL, with a heavy disbursement attached to it. The fact that the PBL had to be extended to give time to the government to complete the policy measures that were deemed to be essential in the follow-up program, and that a simple measure, such as the approval of SEC’s organization chart, took over 5 years to be approved, point to the length of time needed to achieve implementation. While support to the ongoing program was warranted and could have been provided through TA, this assessment wonders whether those resources could have been better used in support of other areas of financial sector development, such as microfinance, where ADB’s program attracted stronger government ownership and was yielding better outcomes. Moreover, the fact that progress in capital market reform has not brought about growth in the buy and the sell sides of the market suggests that the design of the reform program needs to be reassessed to make sure that balanced progress takes place and the system is transformed. The meager progress in transparency and in the growth of the buy and sell sides of the market point indicate that other types of actions, and over a longer period, will be needed. Strong TA seems warranted, but perhaps not with PBLs. It appears that the quality of the analytical work backing these reforms was not up to par. In a similar vein, the cancellation by one of the two banks with which ADB was providing nonsovereign support to improving the garment industry raises questions about the preparatory work that went into the operation. As for the results frameworks in the operations, many of these were not focused on true outcomes or they tried to track variables for which data were not available.

2. Effectiveness

Overall, this assessment finds ADB’s support to Bangladesh’s financial sector less than effective. In the absence of a clear sectoral strategy with well-defined objectives and outcome indicators, the assessment had to evaluate the effectiveness of the financial sector program project by project, and then to weigh those judgements against the resources financed by the program (about three-fourths of the portfolio was concentrated in capital market development and in long-term infrastructure financing). Overall, with the exception of the SME program, which was consistently effective, all programs went through phases; in some periods the results were positive, in others they fell short. Given the resources that went into the different projects, the overall performance, particularly of the larger projects, was weak.

Support for capital markets. ADB disbursements under this program amounted to $550 million. While the Second Capital Market Development Program was effective in calming the markets and in starting far-reaching structural reforms in the governance of the sector, although not at promoting the bond market, its successor, the Third Capital Market Development Program, was long delayed and unable to continue the development of capital markets. The second program did manage to stop the conflicts of interest that existed in the mutualized scheme of the two stock exchanges, and to support the SEC to reform itself into a more well-respected regulator and supervisor. However, such reforms called for continued progress in fully demutualizing the stock exchanges and in providing the SEC with the human resources and expertise to carry out its regulatory and supervisory functions. The third program focused on some actions that, while important, were not necessary nor sufficient to bring about the needed changes in strengthening the SEC and in developing the buy and the sell side of the markets. The third program followed a blueprint that was designed early in the second program, and that was regarded by the authorities as the correct approach to capital market development. While there are merits to that blueprint, the slump observed in the stock market since 2018, as well as the virtual non-existence of the private bond market, suggests that there were weaknesses in the research and conceptual underpinnings of the initial blueprint. In addition, the roll out of the policy action was delayed, and only half of the actions had been carried out by the last 2 years of the program—some, such as the staffing of the SEC, have yet to be implemented. More positively, the SEC acknowledged the value of ADB’s TA projects, and saw them as essential for continued progress.

Support for long-term financing of infrastructure. In 2019, the PVR for the first phase of the Public–Private Infrastructure Development Facility found it relevant but less than effective. Of the five
outputs, three were not achieved, and one was partly achieved. These projects amounted to $535 million. IDCOL’s lending terms were not improved as envisaged. Although IDCOL’s interest rates were reduced, the maturity of the loans ended up being about a third of what had been expected, while loan processing times were about twice as long as expected. IDCOL also had trouble placing debt instruments in international markets, although it was able to arrange for syndicated loans. Improved governance was not achieved. IDCOL’s local rating declined from AAA in 2015 to AA in 2017 and a credit rating from an internationally accepted agency was not obtained. On the positive side, IDCOL strengthened its capacity to implement safeguards. However, while IDCOL’s loan portfolio grew from Tk1,221 million in 2008 to Tk42,037 million in 2017 due to the renewable energy portfolio, particularly the SHS program, its growth has slowed down since 2014 due to the availability of grant financing for the country. As a result, IDCOL’s asset quality weakened from 2015 because of poor collection in the SHS portfolio, which declined from 88% in 2015 to 38% in 2017. At the same time, IDCOL’s focus shifted to medium-sized to large infrastructure subprojects. Nevertheless, the PVR acknowledged the enhanced capacity of IDCOL for PPPs, as well as for supporting improvements in the legal and policy environment.

69. **Support for SMEs.** The two Small and Medium-Sized Enterprise Development Projects ($270 million) probably covered less than 1% of the market. By onlending through financial institutions, the projects sought to increase (i) the number and size of commercially viable SMEs, especially in rural and non-urban areas, with an emphasis on women-led SMEs; and (ii) employment in the SME sector. The DMF had three outcome indicators, which were all achieved: (i) an 8% increase in the number of SMEs in non-urban and rural areas over 3 years (from 830,000 non-metropolitan SMEs); (ii) an 8% increase in SME employment over 3 years; and (iii) a 10% increase in women-led SMEs in three pilot sites. These outcome indicators were broad, and other factors may have contributed to whether or not they were achieved. Average growth in the number of SMEs during 2007–2013 was 30% per year, exceeding the project’s 8% target. The average growth in SME borrowers of 15% during 2010–2014 supplemented this. The project created 8,933 jobs over a 3-year period, growing by 12.5% from 2010–2013, well over the 8% target. The targeted 10% increase in women-led SMEs was also achieved. Based on a case study conducted by ADB on the project, the number of women-owned SMEs in pilot districts increased by over 10%. From 2010 to 2014, a 209% increase in the number of women-led SME borrowers was posted, with a cumulative annual average growth of 33%, higher than the targeted 10% during the period. The projects were also reported to have enhanced the growth in the number and size of commercially viable SMEs, particularly in rural and non-urban areas. In addition, the Microenterprise Development Project ($50 million) was designed to help users of microcredits to grow into potential bank customers. This program is reported to be progressing well but moving beneficiaries’ financing needs from below $1,000 to $10,000 is proving to be a gradual process, since the largest beneficiaries are using only about $1,500.

70. **Support for brick kiln efficiency.** The Financing Brick Kiln Efficiency Improvement Project ($50 million) has taken 8 to 9 years to complete, and, at this stage, is cofinancing 19 manufacturers out of 5,000 potential beneficiaries, with financing ranging between $5 million and $10 million per manufacturer. The program’s expected impact was a 10% reduction in annual GHG emission from the brick sector by 2018, and a 20% reduction in fine particulate pollution. This project was approved in 2012, with the expectation that at least 200 kilns would be upgraded. The indicators for annual GHG emissions and fine particulate pollution from the brick sector are not readily available.

71. **Support for financial services for the poor using JFPR grants.** The two grants (Developing Inclusive Insurance Sector Project and Institutional Support for Migrant Workers' Remittances) were intended to develop microinsurance for the poor and to reduce the cost of repatriating remittances. In the event, the remittances grant was changed into financing a real time settlement system for Bank Bangladesh, at the request of the government and with the support of the JFPR. As for the grant used for microinsurance, a considerable amount of analytical work was done to design these instruments. In addition, a successful pilot project was run, which served the needs of the beneficiaries well. However, ADB stopped working in this area as soon as the grant resources ran out.

72. **Support for the ready-made garment industry.** ADB’s two nonsovereign operations followed a similar model to that of the brick kiln efficiency project: funds were onlent through financial institutions.
In this case, the main objective was to provide long-term financing for the conversion of ready-made garment factories so they complied with the guidelines in the Bangladesh Sustainability Compact. Improvements were expected in both working conditions, and the environmental footprint. Two operations have taken place, one with BRAC Bank and the other with Eastern Bank. BRAC Bank paid back the loan recently and is no longer a partner. Work with Eastern Bank is in the initial stages.

3. Efficiency

73. Overall, this assessment finds ADB’s support to Bangladesh’s financial sector less than efficient. Only three projects from the earlier part of the CAPE had self-evaluations that clearly addressed the issue of efficiency. While these PCRs described the earlier years of the CAPE period, available information indicates an uneven performance in almost all lines of ADB’s support to Bangladesh’s financial sector. As with effectiveness, in the absence of ex-post evaluations, this assessment of the efficiency of the program is done a project-by-project basis. Judgements are then weighed against the resources financed by the program.

74. Support for capital markets. The assessment finds the Second and Third Capital Market Development Programs’ overall efficiency in terms of their aggregated economic returns as well as the policy reforms achieved less than efficient. While the second program was efficient, as rated in its PCR, the same cannot be said for the third. The outcomes were weak, and the reforms came late in the program period. In addition, the program had to be extended by a couple of years to allow time for the government to complete the policy actions. The PCR rating for the second program was based on the program’s timeliness, and its policy measures that addressed many of the critical issues that had led to the 2010 crisis in capital markets. The PCR considered that the policy actions of the second program enabled fundamental and difficult reforms that would otherwise have taken significantly longer to achieve without the program, including steps toward demutualization and the strengthening of SEC. While the second program set the stage for the next generation of reforms, the third focused on minor steps and allowed their delayed implementation—for instance, the SEC has yet to become the regulator and supervisory agency that was foreseen at the beginning of the program.

75. Support for long-term financing of infrastructure. While the first phase of the Public–Private Infrastructure Development Facility was rated efficient in its PCR, this assessment notes that the second phase has yet to close and be evaluated. Notwithstanding this, ADB approved the third phase in 2017. This approval raises questions about the effectiveness and efficiency of the second phase. The fact that the second phase has not closed also raises questions, given that both the first and second phases were disbursed well before the deadline, in part because these facilities were financing solar home systems (SHSs). As for the efficiency of the first phase, one of the arguments offered in the PCR was that the estimated post-implementation aggregate economic internal rate of return (EIRR) of the facility was 17.4%, which was higher than the benchmark discount rate of 12.0%. The PCR also noted that the SHS is the least cost option for reaching the off-grid rural population in a country widely dispersed and crisscrossed by numerous rivers. Nevertheless, the processing time for large subprojects was approximately 12 months, against a target of 6 to 4 months.

76. Support for SMEs. The two Small and Medium-Sized Enterprise Development Projects were efficient, despite delays in each case of about 1 year. These delays were justified by ADB as reflecting difficulties in resolving the legal understandings of the operations with the authorities. While the second project is still open, the first has a PCR that rated it efficient for its optimal utilization of its allocated resources. At appraisal, the first phase was designed to be disbursed in three equal annual installments over 36 months. The actual disbursement was made in 10 equal installments over 37 months, despite an initial delay of 14 months from the planned date stated in the report and recommendation of the President (RRP). The change was for largely justified reasons. The PCR noted that the planned timeframe appeared to have not factored in the time-consuming process of legal vetting of the loan agreement and administrative agreement, and the due diligence process of selecting the participating financial institutions (PFIs). The second program’s 4-year project implementation period has also been extended by a year from April 2020 to June 2021, due to delays in signing the loan agreement. However, if the
program is to be complete by June 2021, disbursement would need to double in 2020, a task that may be daunting, given the impact of the pandemic, and despite ADB’s efforts to be flexible.

77. **Support for brick kiln efficiency.** The Financing Brick Kiln Efficiency Improvement Project was *less than efficient*. It was approved in 2012, has taken 8 to 9 years to complete, and is still open. At this stage, the project is cofinancing 19 manufacturers out of 5,000 potential beneficiaries. The extensions were at the request of the government, and were required despite the fact that the project had TA at the beginning.

78. **Support for the ready-made garments industry.** This program was also *less than efficient*. The fact that BRAC Bank prepaid the loan and left the program indicates that the process of bringing the bank on board was less than efficient. Progress with Eastern Bank is too recent to assess at this stage.

4. **Sustainability**

79. **Overall, this evaluation finds ADB’s support for Bangladesh’s financial sector likely sustainable.** In capital markets, the reforms that were implemented under CMDP II are well established and those under CMDP III are far less controversial. The one element of these programs that is likely to need continued support from ADB through TA is SEC. On infrastructure financing, the main question is whether IDCOL will be able to access other sources of funding once ADB and the World Bank stop funding it. It will likely need further support from the government. However, work in this area has helped develop a well ingrained PPP culture in Bangladesh. Work on SMEs is likely to continue, given the strength of the sector. However, support for brick kiln efficiency is not likely sustainable. The fact that the government has been requesting extensions of this project suggests that it would not be able to fund it in the absence of support from IFIs.

80. **Support for capital markets.** While the Second Capital Market Development Program was rated likely sustainable, the degree of ownership of the third program was not as strong. However, the reforms that were implemented under the second program are well established by now, and those under the third are far less controversial and therefore less likely to be rolled back. The one element of these programs that is likely to need continued support from ADB is the effort to build up the SEC. The SEC has benefited greatly from the TA that ADB has provided and exists in its current state thanks to the reforms of the Second and Third Capital Market Development Programs. The SEC is likely to continue to perform well provided that ADB supports it through further TA.

81. **Support for long-term financing of infrastructure.** The main question is whether IDCOL will be able to access other sources of funding once ADB and the World Bank stop funding it. For the time being, IDCOL has not been able to place bonds abroad and is accessing only a few syndicated loans. Under these conditions, the achievements of the three phases of the Public–Private Infrastructure Development Facility are likely not sustainable. An additional doubt is cast by the fact that the third phase was approved before the second was closed and evaluated, raising questions about IDCOL’s ability to sustain its funding in the absence of ADB support. In the PCR of the first phase, the program was rated *likely sustainable* based on the projects financed, as well as on three structural measures: (i) the enactment of the Bangladesh Public-Private Partnership Act, 2015; (ii) the issuance of procurement guidelines for PPP projects in 2016; and (iii) the elevation of the PPP Office into the PPP Authority in 2015. The PCR acknowledged that IDCOL’s financial condition was fragile because its non-performing assets had reduced its profitability. The PCR also estimated the aggregate financial internal rate of return at 9.0% against the calculated weighted average cost of capital (WACC) of 6.6%. Regardless of the issues affecting IDCOL, it can be said that the Public–Private Infrastructure Development Facility has firmly planted the concept of PPPs in Bangladesh.

82. **Support for SMEs.** The two Small and Medium-Sized Enterprise Development Projects are rated likely sustainable. Bangladesh has a very well established and institutionalized microfinance industry. This prospered before ADB’s support and is likely to continue flourishing even if ADB decides not to support the sector anymore. The impact of the program on bringing women entrepreneurs into the picture is also
likely to continue. The project also managed to arrange for some banks and nonbank financial institutions (NBFI) involved in microfinance to act as catalysts for enhancing sustainable access to financing. The PCR reported that a few financial institutions had begun to make SME financing part of their core business and that they were providing value-added services, such as insurance, networking, and capacity development, including for women entrepreneurs. The only risk to the industry stems from the political pressures to cap and control interest rates. Microfinance is a business that thrives thanks to the freedom of interest rates, and any caps or controls are likely to hamper the development of the sector. The PCR for the first Small and Medium-Sized Enterprise Development Project did not estimate the internal rate of return.

83. **Support for brick kiln efficiency.** This project is not likely sustainable. The program hinges on the availability of long-term financing, especially at interest rates that make the conversion of the brick kilns viable. The fact that the government has been requesting extensions of this project suggests that it would not be able to fund it in the absence of support from international financial institutions.

84. **Support for the ready-made garments industry.** It is difficult to assess the sustainability of these two nonsovereign operations at this stage. Clearly the terms and conditions provided to commercial banks in Bangladesh were not very tempting for BRAC Bank, which has access to other sources of finance such as IFC. If the project were to cast its net wider and to bring in banks with less exposure to IFIs, this would probably improve its sustainability. In the absence of that commitment, the future of this project is similar to that of the brick kiln industry, which was rated not likely sustainable.

5. **Development Impact**

85. **Overall,** this assessment finds ADB’s support to the Bangladesh financial sector has had a *satisfactory* development impact. Many elements indicate that ADB has contributed to Bangladesh’s financial sector, and, through it, to the development of the entire country.

86. **Support for capital markets.** Although capital markets have not evolved as much as expected under the Second and Third Capital Market Development Programs, the capital markets of today are sounder and have better governance than at the beginning of the CAPE period. They still have a long way to go in terms of transparency, in developing a bond market, and in mobilizing enough savings so that the buy and the sell side of the markets are active enough and relatively stable. However, the mutuality of the stock exchanges has been addressed, including what this implies in terms of governance. Initial steps have been taken to develop SEC as a regulator and supervisor. These are important contributions to Bangladesh’s development.

87. **Support for long-term financing of infrastructure.** ADB’s support in this area includes having helped develop a culture of PPPs in Bangladesh, and the gradual development of IDCOL as a specialized bank capable of intermediating long-term foreign financing to support infrastructure development. In addition, the Public–Private Infrastructure Development Facility has supported a shift in energy generation in rural areas toward solar energy, helping address the shortage of energy supply in these areas, as well as to promote a more environmentally friendly technology. ADB has collaborated with the World Bank and the Islamic Development Bank in the financing of these solar projects, which also received cofinancing from the Japan International Cooperation Agency (JICA) and the World Bank.

88. **Support for SMEs.** ADB’s support for SMEs, despite its rather limited size relative to the market, had a development impact in two ways. For one thing, it helped to highlight the importance of supporting women entrepreneurs, including by having special lines of credit for them. For another, it helped commercial banks and other NBFI to open their eyes to the existence of a microfinance sector, where they could expand their operations in a profitable way. Additional important steps taken by ADB include its efforts to develop microinsurance with the support of a grant from the JFPR. Regrettably, ADB did not build on these important activities when grant funding ended.
89. **Support for brick kiln efficiency and the ready-made garments industry.** Although these two projects were small and have not been particularly effective, ADB contributed to Bangladesh’s development by supporting two lines of work of particular interest for the country. First, it helped efforts to deal with the environmental challenges stemming from the way in which traditional brick kilns have operated. Second, ADB has helped the country’s largest exporting industry to move toward world standards that will allow it to keep accessing markets in Organisation for Economic Co-operation and Development (OECD) countries. In its work on kiln efficiency, ADB worked with the Clean Energy Fund.

E. **ADB Financial Sector Support and Strategy 2030**

1. **Poverty and Inequality**

90. ADB supported the poverty and inequality agenda outlined in Strategy 2030 by promoting economic growth and poverty reduction through the development and growth of SMEs. The main objectives of the two Small and Medium-Sized Enterprise Development Projects were to: (i) increase the number and size of commercially viable SMEs, especially in rural and non-urban areas with an emphasis on women-led SMEs; and (ii) increase employment in the SME sector. Accordingly, the monitoring framework focused on the progress toward these objectives in three pilot sites. The PCR for the first Small and Medium-Sized Enterprise Development Project stated that the project had enhanced the growth in the number and size of commercially viable SMEs, particularly in rural and non-urban areas, helped increase the number of women-led SMEs, and helped raise employment in the SME sector.

2. **Climate Change, Resilience, and Sustainability**

91. ADB’s support for this objective was mostly provided through Public–Private Infrastructure Development Facility, and the Financing Brick Kiln Efficiency Improvement Project. The second phase of the Public–Private Infrastructure Development Facility included among its objectives to contribute to renewable energy in total electricity production, especially through financing SHSs. The third phase sought to develop two renewable energy subprojects (with each total subproject costing below $10 million) to be financed under the third phase using the concessional OCR resource envelope.

92. The brick kiln efficiency project sought to reduce the environmental footprint of a highly polluting industry. Its main objective was to reduce the high levels of pollution caused by outdated kiln technology, which is energy-intensive and a source of GHG emissions and fine particulate pollution. The project provided a credit facility to finance the construction of energy-efficient and environmentally superior brick kilns.

93. In a similar vein, the ready-made garments industry project may have positive environmental effects. However, it is at a very early stage, and BRAC Bank has already repaid the loan in full; of the two collaborating banks, it was further ahead in implementing the project.

3. **Rural Development and Food Security**

94. Two ADB programs had strong ties to rural development: The Public–Private Infrastructure Development Facility, and the two Small and Medium-Sized Enterprise Development Projects. The Public–Private Infrastructure Development Facility included a component to finance clean and affordable electricity to rural populations and SMEs. The main instrument used in both the first and second phases of the facility was the financing of SHSs. This effort has been phased out in light of a change in the financing offered by other development partners.

95. The Small and Medium-Sized Enterprise Development Projects promoted SMEs in rural areas. One of the main objectives of the first program was to increase the number and size of commercially viable SMEs, especially in rural and non-urban areas. Accordingly, the monitoring framework expected an 8% increase in the number of non-urban and rural SMEs over the 3 years of the program. According to the PCR, the project enhanced the growth in the number and size of commercially viable SMEs, particularly...
in rural and non-urban areas. In a similar vein, the second program is expecting to fully disburse a $200 million credit line to SMEs outside metropolitan areas.

4. Gender Equality

96. **Gender was central to several of ADB’s financial sector projects.** For example even the second phase of the Public–Private Infrastructure Development Facility paid special attention to women’s issues by including training and awareness campaigns, especially in relation to renewable energy applications. The outcome indicators included the number of end borrowers reached, especially of women.

97. **The Small and Medium-Sized Enterprise Development Projects sought to increase the number and size of commercially viable SMEs, especially in rural and non-urban areas, with an emphasis on women-led SMEs.** Among the outcome indicators was an increase in women-led SMEs in three pilot sites. The PCR reported that the targeted 10% increase in women-led SMEs was realized, as evidenced in a special case study conducted by ADB on the project. From 2010 to 2014, the number of women-led SME borrowers increased by 209%. ADB also provided a TA grant that provided additional support for women (footnote 31). The TA identified constraints on and opportunities for women’s entrepreneurship, provided advocacy for gender-responsive regulations and policy reforms, trained women entrepreneurs, and disseminated findings and follow-up activities.

98. Despite the growth in women-led SME borrowers, the disbursement of credit to women was 6.4% of the total facility, well below the 15% target. The PCR noted that this figure was greater than the 3.9% in 2013 at the national level. The program identified 900 women entrepreneurs in six districts and trained 771 in business improvement and expansion, preparing business plans, and accessing institutional finance. Of these 900 women, 293 received bank loans and 91 received loans through the credit facility. The project financed a total of 439 women entrepreneurs, of whom 91 received training under the TA program. The number of women entrepreneurs applying for loans from banks and NBFIs was 13,831 in 2010 and this increased to 42,730 in 2014, a 208.9% increase (32.6% per annum), which significantly exceeded the 20% DMF target. Nevertheless, the emphasis on women-owned SMEs has faded in the Second Small and Medium-Sized Enterprise Development Project.

99. **The Second Small and Medium-Sized Enterprise Development Project has a special allocation reserved for women.** The program includes a $200 million credit line to SMEs outside metropolitan areas, with $20 million reserved for women entrepreneurs. Because progress was slower than expected, ADB has made several changes to this item: ADB can now finance 83% of each sub-loan, and the 4-year implementation period has also been extended from April 2020 to June 2021 because of delays in signing the loan agreement. However, if the project is to close by June 2021, disbursement would need to double in 2020. To speed up disbursements and improve support for SMEs, especially women entrepreneurs, ADB has agreed that Islamic banks can be included as participating banks. The sector coverage for women borrowers has increased and the constraint on loans for working capital is being reviewed.

5. Governance and Institutional Capacity

100. **The Capital Market Development Program and the Public–Private Infrastructure Development Facility emphasized the need to improve institutional capacity, while working on governance.** An essential element of the Second Capital Market Development Program’s policy actions was addressing the breakdown in governance that had led to the 2010 market crash. The program aimed to create an institution (the SEC) that could be a credible regulator and supervisor of the market. To achieve this, it aimed to demutualize the DSE and the CSE to address the conflicts of interest that had contributed to the crisis. As for the SEC, its institutional capacity was strengthened with the establishment of the capital market tribunal, the implementation of a surveillance system, staff training, and improving staff remuneration. While the steps taken under the Second Capital Market Development Program succeeded in their objectives, the reforms included in the third program were adopted late and have yet to bear fruit. For instance, SEC’s staffing is behind what was expected due to the long delays in the approval of its organization chart.
101. The Public–Private Infrastructure Development Facility was accompanied by efforts to emphasize PPPs. Following support from ADB in 2010, the government adopted a PPP policy and strategy to attract domestic and international investors; in addition, the government established a PPP Authority under the Prime Minister’s Office. The mandate to promote and finance PPP projects in Bangladesh was given to IDCOL, a state-owned NBFI established in 1997. At present, IDCOL is the only domestic financial institution that can catalyze international long-term foreign currency funding, and it has the technical capability to structure and execute infrastructure and project financing with maturities of up to 8 years. IDCOL’s capacity in governance, environmental and social safeguards, and the capacity to attract long term financing was also supported through TA.

102. Despite these efforts, the PCR for phase 1 of the Public–Private Infrastructure Development Facility noted that improved governance in IDCOL had not been achieved. IDCOL’s local rating declined from AAA in 2015 to AA in 2017 and a credit rating from an internationally accepted agency could not be obtained. Nor did overall efficiency improve—the processing time for large subprojects was approximately 12 months, against a target of 6 to 4 months. Nevertheless, IDCOL’s capacity for applying safeguards was enhanced.

F. ADB and Borrower Performance

1. ADB Performance

103. ADB fulfilled many of its responsibilities as a development partner of Bangladesh. ADB coordinated well with the Clean Energy Fund, JFPR and JICA, the Islamic Development Bank, and the World Bank. It conducted productive policy dialogues that helped to progress the Second Capital Market Development Program and to establish a policy framework for PPPs in Bangladesh. ADB supported many requests from the government, including the extension of several projects, including the Small and Medium-Sized Enterprise Development Project and the Financing Brick Kiln Efficiency Improvement Project.

104. ADB could have done a better job in some areas. It could have defined a strategy for the finance sector and implemented policy-based loans in order to promote reforms. The analytical work backing ADB interventions could have been stronger. ADB could have been firmer with the borrower when the political will was not there to move forward, and in monitoring and evaluating its work. Given the size of the financial sector program in Bangladesh, ADB could have designed a clear strategy that laid out how the different programs would be handled, what would be the outcome indicators, how issues would be resolved, and where the program go if things did not quite work out as expected. A good example of issues that could arise was the decline in the government’s willingness to implement necessary reforms in a timely way. If delays were going to happen, could ADB not have diverted some resources to areas where it had been more effective, such as to the SME sector? It may also have been behind the prepayment by one of the banks in the ready-made garments industry program. ADB departed from its policies by allowing policy reform programs to be adopted and implemented in an untimely way. As for monitoring and evaluation, very few programs had outcome indicators that could be tracked by ADB. Outcome indicators were usually too far removed from the interventions, or they depended on unrealistic assumptions for the interventions to yield those outcomes. In terms of development impacts, most of the statements made in ADB documents, including this assessment, do not seem to have a solid factual backing.

105. Overall, ADB’s performance in the financial sector program was less than satisfactory for the reasons explained above.

2. Government performance

106. For most of the projects, the government of Bangladesh owned the program. The government was active in managing many of the projects, even asking for extensions to keep ADB’s involvement
going. However, difficult policy reforms took a long time to be adopted. Minor matters, such as the approval of the SEC organization chart so SEC could be staffed, took more than 5 years to be approved. Not surprisingly, the programs did not bear the fruit expected from them.

107. The government’s role in aid coordination was wanting in some instances. For instance, the coordination between the Islamic Development Bank, the World Bank, and ADB on the provision of solar energy for rural areas ended up in an over-supply of SHSSs during the third phase of the Public–Private Infrastructure Development Facility. Similarly, the resources for a critical task intended to reduce the cost of workers’ remittances from abroad ended up being diverted to putting in place a clearance system for the central bank, Bangladesh Bank. Although the government seemed to be satisfied with the blueprint for capital market reform despite the program’s lackluster outcomes, could it not have asked ADB to help it to rethink the strategy in light of these weak results?

108. The repeated requests for extensions of the programs raise questions about Bangladesh’s views on the polices and covenants of ADB operations. Many programs ended up being extended for a variety of reasons. While some reasons seemed justified, this assessment wonders why compliance with the terms of the operations seems to have been the exception instead of the rule.

G. Summary Assessments, Lessons, and Recommendations

1. Summary Assessments

109. ADB support for Bangladesh’s financial sector was successful on the borderline overall, despite having been relevant and with good development impacts. The SME program performed consistently overall, while the other areas of support lagged. This assessment follows ADB’s 2015 guidelines for CAPEs, which assign a proportional weight to the sectoral and cross-sectoral or thematic performance of the institution.

110. ADB’s program was relevant in all areas and was aligned with Bangladesh’s development strategies and priorities. The program did not follow any particular strategy and did not have a monitoring framework. However, it met needs that were evident in 2011, when the CAPE period started. These needs were identified in the 2010 IMF and World Bank FSSA, and in the 2011 Article IV Consultation with the IMF. Elements of the program also addressed issues raised in Bangladesh’s Sixth and Seventh Five-Year Development plans. In addition, while ADB did not spell out a strategy to follow in supporting Bangladesh’s financial sector, the program was relevant when judged against ADB’s own corporate strategies, Strategy 2020 and Strategy 2030.

111. ADB’s support was overall less than effective, because only the SME program was effective. The capital markets, infrastructure financing, and the bricks kilns programs fell short of expectations. Capital markets ended up with a stock exchange in a slump and a virtually non-existent bond market. The long-term financing of infrastructure did not achieve its governance objectives or attract sufficient alternative sources of financing. The bricks kilns project financed only a fraction of the conversions that were projected. By contrast, the SME program was effective, helping to grow the SME sector while promoting the situation of women in the micro-sector.

112. The evaluation found ADB’s support to the financial sector less than efficient, with the SME area being an exception once again. While the three PCRs on projects that closed in the earlier part of the CAPE period rated the projects efficient, efficiency seems to have declined in the latter part of the period. The Second Capital Markets Development Program had to be extended because the authorities had not completed the agreed policy actions. The long-term financing of infrastructure led to a third program being approved in haste, while the second program was still active. The bricks kilns project had extensions that were not clearly justified and that meant that the program took 8 to 9 years to close. Only the SME programs continued to run as expected.
113. **ADB's financial sector operations are likely sustainable.** In capital markets, the reforms that were implemented under CMDP II are well established and those under CMDP III are far less controversial. The one element of these programs that is likely to need continued support from ADB through TA is SEC. On infrastructure financing, the main question is whether IDCOL will be able to access other sources of funding once ADB and the World Bank stop funding it. It will likely need further support from the government. However, work in this area has helped develop a well ingrained PPP culture in Bangladesh. Work on SMEs is likely to continue, given the strength of the sector. However, support for brick kiln efficiency is not likely sustainable. The fact that the government has been requesting extensions of this project suggests that it would not be able to fund it in the absence of support from IFIs.

114. **ADB support for Bangladesh’s financial sector has had a satisfactory development impact.** Many elements of the program contributed to ADB having contributed to the Bangladesh financial sector, and through it, to the development of the entire country. The contributions were less than expected, but they were positive nevertheless. In capital markets, demutualization and support for the SEC in its work regulating and supervising these markets were steps in the right direction. ADB's work to create a culture of PPPs and to encourage use of alternative sources of energy were also welcome. Similarly, moving the financial sector to focus more on microenterprises and women entrepreneurs were positive developments. ADB's support for upgrading some of the brick kilns was also a contribution to environmental sustainability.

115. **ADB's financial sector program contributed to five out of the seven strategic agendas in Strategy 2030.** The program contributed to abating poverty and inequality, and to promoting gender issues, especially through its SME program. It encouraged SMEs run by women entrepreneurs, and fostered employment in the SME sector. The program contributed to combating climate change, while improving resilience and sustainability by promoting the use of clean solar energy, and by improving the environmental footprint of some brick kilns. The program helped rural development by emphasizing and helping to finance the development of SMEs in rural areas. The program fostered governance and institutional development through its work in improving capital markets and establishing the SEC as a regulator and supervisor. It helped develop IDCOL as an institution able to contribute to the long-term financing of infrastructure. In all these areas, ADB’s financial sector program was relevant and had positive development impacts. The two Strategy 2030 strategic agendas that the program did not contribute to were livable cities and fostering regional cooperation and integration.

2. **Lessons**

116. **The repeated requests for extensions of the programs raise questions about Bangladesh’s views on the policies and covenants of ADB operations.** Many programs ended up being extended for a variety of reasons. While some seemed justified, this assessment wonders why compliance with the terms of the operations seems to have been the exception instead of the rule. Should operations have done a better job of factoring in the intricacies and complexities of doing business in Bangladesh?

117. **When analytical work is weak, especially in complex areas such as capital markets, the likelihood of reaching the desired goals diminishes.** Good analysis is needed both for the initial design and to revisit the design of a program when the objectives are not being met. While exogenous factors may have responsible for some of the programs’ shortcomings, it is ADB’s responsibility to take a look at the design of the program to assess whether a different layout would have produced a better outcome.

118. **Improving governance in institutions requires long-term support through TA.** Progressing IDCOL from a lower to a higher risk rating would have required closer tutelage by ADB. Similarly, improvements to the governance of the SEC needed to be based on the institution having sufficient capacity, one essential element of which is sufficient staff.

119. **Approving extensions does not necessarily lead to better outcomes and development impacts.** Several extensions were granted to give the government time to do its part in some projects, which implies that the effectiveness and the development impact suffered because government actions were
delayed. ADB’s consistent underestimation of the time it takes to get things done in Bangladesh indicates that ADB’s preparatory work was weak (assuming that the extensions were due to government delays).

3. Recommendations

120. **ADB should develop a finance sector strategy with a clear monitoring framework and with a game plan on how to deal with the program when things do not go well.** The financial sector program during the CAPE period appeared to have been put together rather incoherently. While the major issues faced by Bangladesh were worked on, the way in which the program developed did not maximize the effectiveness of ADB’s support. A strategy would enable ADB to take a more holistic view of the sector and to become a more effective development partner.

121. **Resources should be allocated at the most effective areas of ADB support.** In the case of the finance sector, significant resources were devoted to promote programs that were not effective. A better outcome could have been obtained if those resources had been diverted to areas where ADB’s presence was limited, but effective, such as in promoting SMEs and women entrepreneurs.

122. **The use of policy-based lending should be restricted to programs where there is a very high degree of government ownership, and where there is a good chance of achieving the desired policy reforms.** Otherwise, alternative channels of financing may be a better option. If policy-based lending has to be extended, this is a recognition that the policy package was not well designed, ownership was not strong, or a combination of both. In such cases, closing the loan and finding an alternative solution may be a better alternative.

123. **A sector program needs to look at the real distortions and constraints faced by the sector, and to address them, instead of making small inroads into parallel systems.** The question of why long-term financing has not done well in Bangladesh needs to be identified and addressed. While the idea of creating a special institution such as IDCOL for public–private infrastructure projects have some appeal, it does not by itself address the issues that are constraining long-term finance in the country. A better understanding of those constraints and distortions is needed.