



# Completion Report

---

Project Number: 36197  
Loan Number: 2232  
September 2014

## Bangladesh: Improvement of Capital Market and Insurance Governance Project

The document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

Currency Unit		–	Taka (Tk)
		<b>At Appraisal</b> (31 December 2007)	<b>At Project Completion</b> (31 December 2012)
Tk1.00	=	\$ 0.0150	\$0.0128
\$1.00	=	Tk66.5800	Tk78.1415

## ABBREVIATIONS

ADB	–	Asian Development Bank
BAS	–	Bangladesh accounting standard
BFID	–	Bank and Financial Institutions Division
BICM	–	Bangladesh Institute of Capital Market
BSEC	–	Bangladesh Securities and Exchange Commission
CMDP	–	capital market development program
CSE	–	Chittagong Stock Exchange
DSE	–	Dhaka Stock Exchange
GDP	–	gross domestic product
ICB	–	Investment Corporation of Bangladesh
IDRA	–	Insurance Development and Regulatory Authority
JBC	–	Jiban Bima Corporation
MOF	–	Ministry of Finance
NPRS	–	national poverty reduction strategy
OCCI	–	Office of the Chief Controller of Insurance
PMU	–	project management unit
SBC	–	Sadharan Bima Corporation
SDR	–	special drawing rights
SEC	–	Securities and Exchange Commission
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 30 June 2009.
- (ii) In this report, "\$" refers to US dollars.

<b>Vice-President</b>	W. Zhang, Vice President, Operations 1
<b>Director General</b>	H. Kim, South Asia Department (SARD)
<b>Country Director</b>	K. Higuchi, Bangladesh Resident Mission (BRM), SARD
<b>Team leader</b>	B.K. Saha, Senior Project Officer (Financial Sector), BRM, SARD
<b>Team members</b>	N. Alam, Project Analyst, BRM, SARD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area

## CONTENTS

	<b>Page</b>
BASIC DATA	i
I. PROJECT DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	1
A. Relevance of Design and Formulation	1
B. Project Outputs	2
C. Project Costs	7
D. Disbursements	7
E. Project Schedule	8
F. Implementation Arrangements	8
G. Conditions and Covenants	8
H. Consultant Recruitment and Procurement	8
I. Performance of Consultants, Contractors, and Suppliers	9
J. Performance of the Borrower, Executing Agency, and Implementing Agencies	9
K. Performance of the Asian Development Bank	10
III. EVALUATION OF PERFORMANCE	10
A. Relevance	10
B. Effectiveness in Achieving Outcome	11
C. Efficiency in Achieving Outcome and Outputs	12
D. Preliminary Assessment of Sustainability	12
E. Impact	12
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	13
A. Overall Assessment	13
B. Lessons	14
C. Recommendations	14
APPENDIXES	
1. Design and Monitoring Framework	16
2. Surveillance in the Bangladesh Capital Market	23
3. Training Provided to the Bangladesh Securities and Exchange Commission	24
4. Project Implementation Schedule	27
5. Status of Compliance with Loan Covenants	28
6. Reports Submitted by Consultants	31
7. Performance of the Capital Market in Bangladesh	33
8. Capital Issuance Trend in the Bangladesh Capital Market	34
9. Growth of the Insurance Sector in Bangladesh	35

## BASIC DATA

### A. Loan Identification

1.	Country	Bangladesh
2.	Loan Number	2232-BAN(SF)
3.	Project Title	Improvement of Capital Market and Insurance Governance Project
4.	Borrower	People's Republic of Bangladesh
5.	Executing Agency	Bank and Financial Institutions Division, Ministry of Finance
6.	Amount of Loan	SDR2,103,000
7.	Project Completion Report Number	BAN 1488

### B. Loan Data

1.	Appraisal	
	– Date Started	15 August 2005
	– Date Completed	29 August 2005
2.	Loan Negotiations	
	– Date Started	7 December 2005
	– Date Completed	8 December 2005
3.	Date of Board Approval	9 March 2006
4.	Date of Loan Agreement	7 February 2007
5.	Date of Loan Effectiveness	
	– In Loan Agreement	7 March 2007
	– Actual	23 May 2007
	– Number of Extensions	No extension
6.	Closing Date	
	– In Loan Agreement	30 June 2008
	– Actual	19 May 2013
	– Number of Extensions	4
7.	Terms of Loan	
	– Interest Rate	1% per annum during grace period 1.5% per annum thereafter
	– Maturity (number of years)	32
	– Grace Period (number of years)	8
8.	Disbursements	
a.	Dates	

Initial Disbursement	Final Disbursement	Time Interval
11 June 2009	16 January 2013	43.6 months
Effective Date	Original Closing Date	Time Interval
23 May 2007	30 June 2008	13.8 months

		b. Amount (SDR million)					
Category		Original Allocation	Last Revised Allocation	Amount Canceled <sup>a</sup>	Net Amount Available	Amount Disbursed	Undisbursed Balance
01	Equipment	0.301	0.432	0.049	0.383	0.383	0
02	Training	0.181	0.182	0.100	0.082	0.082	0
03	Consulting Services	1.272	1.272	0.259	1.013	1.013	0
04	Reports & Communications	0.011	0.011	0.011	0.000	0.000	0
05	Interest Charge	0.027	0.027	0.014	0.013	0.013	0
06	Unallocated	0.310	0.179	0.179	0.000	0.000	0
<b>Total</b>		<b>2.103</b>	<b>2.103</b>	<b>0.612</b>	<b>1.491</b>	<b>1.491</b>	<b>0</b>
<b>Equivalent \$ (million)</b>		<b>3.000</b>	<b>3.221</b>	<b>0.916</b>	<b>2.304</b>	<b>2.304</b>	<b>0</b>

SDR = special drawing rights

<sup>a</sup> amount cancelled during closing of Loan Account on 19 May 2013

Source: Asian Development Bank Loan Financial Information System

10.	Local Costs (Financed)	
-	Amount (\$)	0
-	Percent of Local Costs	0
-	Percent of Total Cost	0

### C. Project Data

#### 1. Project Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	2.500	2.304
Local Currency Cost	1.500	0.808
<b>Total</b>	<b>4.000</b>	<b>3.112</b>

Sources: Asian Development Bank Loan Financial Information System; Asian Development Bank. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the People's Republic of Bangladesh: Improvement of Capital Market and Insurance Governance Project*. Manila; and project completion reports of implementing agencies

#### 2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	1.000	0.808
ADB Financed	2.961	2.284
<b>Total</b>	<b>3.961</b>	<b>3.092</b>
IDC Costs		
Borrower Financed	0.000	0.000
ADB Financed	0.039	0.020
<b>Total</b>	<b>4.000</b>	<b>3.112</b>

ADB = Asian Development Bank, IDC = interest during construction.

Sources: Asian Development Bank Loan Financial Information System; Asian Development Bank. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Technical Assistance Loan to the People's Republic of Bangladesh: Improvement of Capital Market and Insurance Governance Project*; and project completion reports of implementing agencies

## 3. Cost Breakdown by Project Component (\$ million)

Component	Appraisal Estimate	Actual
Part 1: Enhancement of Governance and Capacity of the Capital Market		
Component 1: Securities and Exchange Commission	1.300	1.043
Component 2: Stock Exchange	0.200	0.070
Component 3: Market Intermediaries	0.500	0.857
Component 4: Investment Corporation of Bangladesh	0.300	0.255
Part 2: Enhancement of Governance and Capacity of the Insurance Sector	1.300	0.782
Project Administrative Support and Others, and Interest During Construction	0.500	0.105
<b>Total</b>	<b>4.000</b>	<b>3.112</b>

## 4. Project Schedule

Item	Appraisal Estimate	Actual
<b>Preparatory Actions</b>		
Establishment of PMU and PIUs	Oct 2007–Nov 2007	Dec 2006
Selection of International Consultant Firms	Oct 2007–Feb 2008	Nov 2010
<b>Part 1: Enhancement of Governance and capacity of the Capital Market</b>		
<b>Component 1: BSEC</b>		
1.1 Strengthening the Market Surveillance System		
Define Requirements and Write RFP	Feb 2008–Apr 2008	Aug 2011–Oct 2011
Evaluate Responses and Site Visit	Apr 2008–Jul 2008	Nov 2011–May 2012
Contract Negotiations	Aug 2008–Oct 2008	Nov 2011–May 2012
Test and Introduce	Nov 2008–Jan 2009	Jun 2012–Dec 2012
Training and Manuals	Aug 2008–Mar 2009	Oct 2010–Oct 2012
Strengthening of Surveillance and Exchanges	Nov 2008–Mar 2009	Dec 2012–Continuous
1.2 Further Strengthening the Capacity of BSEC		
Training Unit Establishment	Mar 2008–May 2008	Not established
In-House Training	Mar 2008–Jun 2009	Feb 2012–Dec 2012
Overseas Secondments	Aug 2008–Sep 2008	Feb 2012–Dec 2012
Organization of Training	Feb 2009–Mar 2009	
Risk Management Review	Mar 2008–Jun 2008	Sep 2011–Dec 2012
	Jul 2008–Jul 2008	Dec 2012–Continuous
<b>Component 2: Stock Exchange</b>		
Training	Mar 2008–Jun 2009	Sep 2011–Dec 2012
Study to Facilitate Exchange Transaction	May 2008–Jul 2008	Dec 2012–Dec 2012
And to Increase Market Supply		
Improvement of Governance	Aug 2008–Sep 2008	Nov 2010–Dec 2012
<b>Component 3: Market Intermediaries</b>		
Licensing Review	Mar 2008–Apr 2008	Nov 2010–Dec 2012
Overseas Institute Visits	Apr 2008–Apr 2008	Nov 2010–Dec 2012
New Rules	May 2008–Jul 2008	Nov 2010–Dec 2012
Training Prepared	Mar 2008–Jan 2009	Nov 2010–Dec 2012
Capital Market Institute Establishment	Aug 2008–Oct 2008	Nov 2010–Dec 2012
Capital Market Institute Operation	Nov 2008–Jun 2009	Nov 2010–Dec 2012
Examination Start	Feb 2009–Jun 2009	Nov 2010–Dec 2012
Women's Courses	May 2009–Jun 2009	Nov 2010–Dec 2012
<b>Component 4: ICB</b>		
Review of Accounting Audit and Management Practices	Mar 2008–Jun 2008	Jun 2011 onwards
Dissemination of Recommendations	Jul 2008–Jul 2008	Jun 2011–Jun 2011

Item	Appraisal Estimate	Actual
<b>Part 2: Enhancement of Governance and Capacity of the Insurance Industry</b>		
Review of Legal Framework	Mar 2008–Apr 2008	Aug 2009–Dec 2010
Drafting New Regulations	May 2008–Oct 2008	Jan 2011–Jun 2011
Strengthening of Regulator	Mar 2008–Jun 2009	Jun 2011–Dec 2012
Management Information System Installment	Aug 2008–Oct 2008	Jun 2011–Dec 2012
Update of Mortality Tables and Review of Premium	Nov 2008–Jan 2009	Jun 2011–Dec 2012

#### 5. Project Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 31 March 2006 to 31 March 2010	S	S
From 1 April 2010 to 30 September 2010	S	HS
From 1 October 2010 to 31 December 2012	HS	HS

BSEC = Bangladesh Securities and Exchange Commission, HS = highly successful, ICB = Investment Corporation of Bangladesh, PIU = project implementation unit, PMU = project management unit, RFP = request for proposal, S = satisfactory

Source: Asian Development Bank's project performance reports and eOps

#### D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members <sup>a</sup>
Fact Finding	11–25 May 2005	3	45	a,b
Appraisal	15–29 Aug 2005	9	135	a,b,c,d,e,f,g,h,i
Review 1	14 Jun 2007	2	2	j,k
Review 2	26–29 Nov 2007	2	8	l,m
Review 3	26 Apr–4 May 2009	2	18	l,m
Review 4	8–19 Oct 2009	3	36	l,m,k
Review 5	10–15 Apr 2010	3	18	l,m,k
Review 6	12–15 February 2012	2	8	n,o
Project completion review	24–28 Aug 2014	2	8	n,o

Note: a = sr. financial /capital markets specialist, b = senior economist, c = lead financial sector specialist, d = counsel, e = Economist, f = country program specialist, g = head economic unit, h =project officer, l = country director, j = senior financial sector specialist, k = assistant project analyst, l = senior finance specialist, m = finance management office, n = senior financial sector officer, o = project analyst.



## I. PROJECT DESCRIPTION

1. On 9 March 2006 the Asian Development Bank (ADB) approved the technical assistance (TA) loan of SDR2.103 million, equivalent to \$3.0 million, to the Government of Bangladesh for implementing the Improvement of Capital Market and Insurance Governance Project; the total project cost of \$4.0 million included government financing of \$1.0 million. The intended impact of the project was to ensure a sound and efficient capital market and insurance sector to help accelerate economic growth and reduce poverty. The specific project outcome was the improvement of governance, efficiency and investor confidence in the capital market and insurance sector. The project was envisaged to provide the groundwork for future reforms based on improved market confidence, and boost the capacity, role and efficiency of market institutions and strengthen surveillance systems.

2. Investor confidence in Bangladesh's capital market has not fully recovered following the stock market crash of 1996. The lack of confidence is traceable in large part to weak governance practices. Lack of market interest has in turn marginalized the role of the capital market in mobilizing long-term funds for economic development. Although efforts to improve insurance sector governance had been initiated, the government recognized that much still needed to be done, and accordingly requested a TA loan from ADB to address urgent capital market and insurance sector issues, and to maintain the momentum of ongoing reforms. Successful implementation of the project was seen as providing a base for considering a large-scale program or project loan.<sup>1</sup>

3. The project was undertaken with the objective of improving governance practices in the capital market and insurance sector. The TA loan had two parts. Part 1 was expected to enhance the governance and capacity of the capital market, and part 2 was designed to enhance governance and capacity of the insurance sector. Part 1 was targeted at the regulator, stock exchanges, market practitioners, and investors. It reflected the continuing assistance from ADB to develop the domestic market, which is crucial for mobilizing resources to support private sector activity and promote economic growth. Part 2 was expected to support government-led reforms being pursued in the insurance sector, including the establishment of a new regulatory authority following international best practices. These twin efforts were undertaken in line with the government's Unlocking the Potential: National Strategy for Poverty Reduction (NPRS), which aimed to substantially increase private investment, savings, and economic growth.<sup>2</sup>

## II. EVALUATION OF DESIGN AND IMPLEMENTATION

### A. Relevance of Design and Formulation

4. The project was relevant to the strategic focus of the ADB country strategy and program 2006–2010<sup>3</sup>—to play a major role in supporting policy and institutional reforms to improve sector governance and increase the efficiency of Bangladesh's capital market, and strengthen ADB support in sectors where reforms are difficult and fundamentally essential to growth and poverty reduction. The project contributed to the preparation of follow-up projects: the Second Capital

---

<sup>1</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a proposed Technical Assistance Loan to the People's Republic of Bangladesh for Improvement of Capital Market and Insurance Governance Project*. Manila

<sup>2</sup> Government of the People's Republic of Bangladesh, 2004. *Unlocking the Potential: National Strategy for Poverty Reduction*. Dhaka

<sup>3</sup> 2005. ADB. *Country Strategy and Program: Bangladesh, 2006–2010*. Manila

Market Development Program (CMDP) with ADB's financial support of \$300 million,<sup>4</sup> and the third CMDP, which is included in the ADB pipeline and expected to be approved in 2015.

5. The project's relevance and rationale stemmed from both the ADB country strategy and program and the government NPRS. Bangladesh is an emerging economy, and aspired to generate momentum to increase gross domestic product (GDP) growth to 7%–8%, from around 5%–6% achieved during FY2000–FY2004. The NPRS has a long-term goal of reducing poverty and increasing the rate of social development, with a significant increase in private investment, savings, and economic growth. Financial sector development can contribute to both economic growth and poverty reduction.

6. It is vital to boost investor confidence in order to enhance financial sector resource mobilization and ensure efficient resource allocation. The government recognizes that establishing good financial market governance is essential to development of a healthy financial system. The focus—by both ADB and the government—on governance and capacity issues of the capital market and insurance subsectors provided impetus for the project.

7. The project is consistent with ADB's tradition of providing program and/or project loans in support of successive financial sector institutional reforms and capacity development. ADB implemented the first CMDP during January 1998–June 2001.<sup>5</sup> It was designed to reestablish investor confidence in the stock market. The project design was consistent with the ADB country strategy of supporting Bangladesh in meeting the Millennium Development Goals through increased domestic private investment in all sectors (footnote 2).

8. The mixed success of and lessons drawn from the first CMDP helped ensure initial stakeholder involvement in the design and formulation of the project, which contributed significantly to its success, including the soundness of its design, stakeholder participation and ownership, and the project outcomes as realized by the government and implementing agencies. The project was approved as a follow-up to the first CMDP and in support of the strategy of developing a modern, reliable financial sector in Bangladesh, and supplemented government policies and programs.

9. The project was based on the findings of an ADB TA project.<sup>6</sup> The key components of the TA were: (i) strengthening regulatory and supervisory capacity; (ii) improving governance and operations of market intermediaries; (iii) strengthening corporate governance and public disclosures; (iv) strengthening the accreditation system; and (v) strengthening debt recovery. The project design (i) was relevant to both ADB and government development strategies; (ii) sound in terms of project formulation, which involved consultation with beneficiaries and stakeholders and development of their ownership to the project; and (iii) required no major changes during implementation. The project benefited the finance sector in particular.

## **B. Project Outputs**

10. The project was designed in two parts for implementation: (i) enhancement of the governance and capacity of the capital market; and (ii) enhancement of governance and

<sup>4</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors on Proposed Policy-based Loans and Administration of a Technical Assistance Grant to the People's Republic of Bangladesh for the Second Capital Market Development Program*. Manila

<sup>5</sup> ADB. 2005. *Program Performance Audit Report: Capital Market Development Program in Bangladesh*. Manila.

<sup>6</sup> ADB. 2003. *Technical Assistance to the Peoples Republic for Preparing the Financial Markets Governance Program* (TA 4246-BAN).Manila.

capacity of the insurance sector. Part 1 consisted of four components: (i) Bangladesh Securities and Exchange Commission (BSEC)<sup>7</sup>, (ii) stock exchanges—Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), (iii) enhancing the capacity and operating standards of market intermediaries, and (iv) enhancing the governance and capacity of the Investment Corporation of Bangladesh (ICB). Despite an initial 3-year procedural delay in recruiting consultants, the achievement of the target outputs is satisfactory (the updated design and monitoring framework is in Appendix 1).

## **1. Part 1: Enhancement of the Governance and Capacity of the Capital Market**

### **a. Component 1: Bangladesh Securities and Exchange Commission**

11. The intended output of the project under this component was substantially achieved. Prior ADB projects and sector surveys revealed the capital market had several weaknesses in terms of its regulatory authority; governance; institutional infrastructure; and capacity to monitor, supervise and enforce regulations. Manual systems and processes hindered the regulatory functionality of the BSEC and rendered its regulatory oversight weaker.

12. **Strengthening the market surveillance system.** Under this component, the BSEC acquired and installed an “InstantWatch” market surveillance system that became operational on 17 December 2012.<sup>8</sup> The system significantly improved BSEC’s surveillance capacity of trading on the stock exchanges. The system can detect a wide range of manipulations (e.g., short-selling, circular movements, spoofing, and wash sales) on a real-time basis, enabling BSEC to take immediate action. The system can also detect the flow of financial transactions—such as trades, orders and news (from trading systems of the stock exchanges)—which assists with investigations, and is configurable based on securities laws. The surveillance system adds to the existing surveillance functionality of the two stock exchanges and ensures their efficiency and enhanced regulatory competence.

13. Prior to the introduction of the automated system market surveillance was performed manually, which made daily detection of a large number of market manipulations impossible. Surveillance and analysis quality, reliability and efficiency have improved: (i) the system provides clues for investigation of possible market manipulation at an initial stage, (ii) it is now possible to investigate specific incidents and activities, (iii) stock brokers are queried and warned based on alerts that heighten brokers’ awareness of unfair trading practices and compliance with securities-related rules and regulations, and (iv) the system automatically detects short-selling of securities. InstantWatch has brought discipline to the market by enabling the regulator to detect irregularities, which stock traders are aware of. A review of BSEC performance shows the number of market irregularities declined following implementation of the surveillance system (Appendix 2).

14. **Strengthening Bangladesh Securities and Exchange Commission capacity.** The project provided (i) overseas training, seminars and study tours for 22 BSEC staff members, including on investigation and enforcement, forensic accounting and auditing, financial reporting and disclosure, and surveillance; and (ii) local training to 76 BSEC staff. Training imparted by the project is listed in Appendix 3. Staff members were posted in positions where they can use the training they received. Although the project had intended to establish a training unit within

<sup>7</sup> Securities and Exchange Commission (SEC) was renamed as Bangladesh Securities and Exchange Commission (BSEC) in December 2012.

<sup>8</sup> Bangladesh Securities and Exchange Commission. 2013. *Annual Report 2012–2013*. Dhaka

BSEC, this function was instead assigned to the Bangladesh Institute of Capital Market (BICM) to provide training in the most cost- and resource-effective manner. However, BSEC has plans to establish a training unit or academy by 2016.

15. A memorandum of understanding for better coordination and augmentation of supervisory initiatives among regulatory entities—BSEC, Bangladesh Bank, Insurance Development & Regulatory Authority (IDRA)<sup>9</sup> and the Micro-Credit Regulatory Authority—was signed on 23 September 2012. The inter-market surveillance unit was not established formally, as was envisaged under the project design, but the intended functions and activities are being performed through meetings to coordinate surveillance efforts involving BSEC, DSE and CSE. BSEC has initiated the formation of a formal inter-market surveillance committee, which is to be completed by the end of 2014.

16. Currently the role of risk management control of BSEC is executed by the three departments: (i) audit inspection and market intermediaries department; (ii) supervision of stock exchanges department; and (ii) market surveillance and enforcement department. The project supported a concise risk management review so that BSEC can identify potential weaknesses in the market structure.<sup>10</sup> The report recommended BSEC build its risk management control capabilities by setting up a new risk management control department to develop risk management policies and measures covering issues such as market transparency, financial and risk disclosures, and business conduct oversight. BSEC has prepared a guideline for onsite inspection of registered stockbrokers and stock dealers, which has strengthened BSEC's supervisory capacity.

#### **b. Component 2: Stock Exchanges.**

17. The project achieved its intended outputs under Component 2 substantially through the revision of memorandum and articles of association and reformation and optimization of boards and committees. Management and staff capacity have been improved through training. The management structure and governance matrix have been changed to increase the efficiency and effectiveness of exchange operation and governance.

18. A significant milestone in the capital market history of Bangladesh was achieved with the successful implementation of the demutualization scheme of the exchanges on 21 November 2013. This reduced the size of each exchange's board and committees, with board size reduced to 13 from 24; in addition, the chairman is now selected from a group of independent directors, and the majority of board and committees are now independent.

19. The project made a number of recommendations with the goal of increasing the supply of securities, including timebound privatization of state-owned enterprises; competition among exchanges; permitting brokers, dealers and merchant banks to provide investment advice; streamlining initial public offering procedures; revision of pricing methods; strengthening of listing regulations; and development of a bond market and introduction of new market products.<sup>11</sup> The demutualization of the exchanges was an important step in the gradual process of implementing the recommended actions and thereby increasing the supply of securities in the capital market.

<sup>9</sup> Insurance Development & Regulatory Authority (IDRA), established in January 2011, is the successor of Office of the Chief Controller of Insurance (OCCI).

<sup>10</sup> The International Securities Consultancy Limited. 2011. *SEC/Exchange Skills Development and Training – Risk Management*. Dhaka.

<sup>11</sup> The International Securities Consultancy Limited. 2011. *Listings and Trading Product Development*. Dhaka.

**c. Component 3: Market Intermediaries – Enhancing Capacity and Operating Standards**

20. Outputs under this component were partially achieved. The project reviewed and assessed the status of governance practices of intermediaries and recommended the adoption of international best practices in line with International Organization for Securities Commissions guiding principles, and assisting the BSEC in the licensing and accreditation process for authorized representatives, principals and intermediaries.<sup>12</sup> BSEC has been assessing the recommendations and no new rules have been introduced. However, BSEC issued revised corporate governance guidelines for listed companies in 2012, and is in the process of preparing corporate governance rules. BSEC supervises and investigates stock brokerage firms to ensure compliance and proper operation, following guidelines prepared by the project.<sup>13</sup>

21. In line with its design, the project facilitated the establishment of a national capital market institute, BICM, which has a mandate of providing training to a wide spectrum of market professionals and participants—its stated mission is bridging the gap in knowledge, skills and competency of capital market participants. BICM began operating in 2010, and is headed by the chairman of BSEC and funded by the government. As part of strengthening the licensing regime by mandatory accreditation of authorized representatives of market intermediaries, the project recommended amendments to various rules for implementing a mandatory examination system, and developed an examination schedule and a new curriculum.<sup>14</sup> BSEC is amending its rules as needed to make examinations for authorized representatives of market intermediaries mandatory. Courses for awareness development of women were developed but the response has been muted, despite publication of newspaper advertisements of the courses. BICM is working with a women entrepreneurs' association to offer securities awareness training to women.

**d. Component 4: Investment Corporation of Bangladesh — Enhancement of Governance and Capacity**

22. The project has largely achieved the component 4 outputs, and ICB successfully implemented a majority of the recommendations made by the project to improve its accounting, audit and corporate governance practices to international standards, which increased the efficiency of ICB's daily activities as mentioned by ICB in its project completion report.<sup>15</sup> ICB implemented recommendations on accounting practices, such as (i) stopping unspecific provisions as per Bangladesh accounting standard (BAS) 37; (ii) adopting fair market value for reporting portfolio positions, as per BAS 39; (iii) adopting retrospective restatement of errors, as per BAS 8; and (v) holding intensive meetings with its auditors with regard to the recommendations as reflected in the annual reports of ICB.<sup>16</sup> ICB sent a proposal to BSEC, in compliance with a recommendation, for re-corporatization of eight closed-end mutual funds by converting them into open-end mutual funds and transferring the management responsibility to ICB Capital Management, an ICB subsidiary company. However, considering the perceived

<sup>12</sup> The International Securities Consultancy Limited. 2012. *Component 3: Market intermediaries – Enhancing Capacity of Operating Standards – Intermediaries Governance*. Dhaka

<sup>13</sup> The International Securities Consultancy Limited. 2011. *On-Site Inspection of Securities Brokerage Firms*. Dhaka

<sup>14</sup> The International Securities Consultancy Limited, 2012. *Draft Rules to mandate Examinations*. Dhaka; The International Securities Consultancy Limited, 2012. *Rules to Underpin Mandatory Examination Process*. Dhaka.

<sup>15</sup> Investment Corporation of Bangladesh. 2012. *Project Completion Report*. Dhaka.

<sup>16</sup> Investment Corporation of Bangladesh. 2011. *Annual Reports 2009-10 and 2010-11*. Dhaka.

negative impact on the market, ICB decided to retain the only open-end fund under its management.

23. ICB has also implemented recommendations for improving governance practices by (i) establishing an internal control and compliance division headed by a chief compliance officer to address the conflict of interest issues, (ii) establishing a budget and risk management department headed by a chief risk officer charged with preparing a risk identification manual, (iii) establishing a public relations department headed by a chief information officer for overseeing aspects of information technology and dissemination of information. ICB need to assess the constitution of nomination committee within the regulatory framework of ICB Ordinance.

24. However, ICB has been unable to adopt a recommended sophisticated management tool—project portfolio management—which requires up-to-date computer systems and training. The project found that although ICB directors, officers and accountants were highly qualified, they lacked exposure to new standards, which could be addressed through local and international training to ensure ICB and its staff meet the same standards as other similar institutions.<sup>17</sup> ICB requested ADB assistance for accounting and corporate governance training.

## **2. Part 2: Enhancement of Governance and Capacity of the Insurance Sector**

25. This component has largely achieved its targets by way of providing a comprehensive development plan for the insurance regulator, preparing draft rules and regulations, and providing a development plan for state-owned insurance corporations. A comprehensive sector enhancement plan was also formulated by the project. A key project output was the framing of 49 draft rules and regulations for implementation by the regulator under the new Insurance Act, 2010 and the Insurance Development and Regulatory Authority Act, 2010. IDRA, the new insurance regulator, has passed three rules and eight regulations substantially on the basis of the drafts prepared by the project, and is in process of drafting additional rules and regulations (these are currently available for review).<sup>18</sup> The new and revised rules and regulations are expected to provide a strong legal structure for the industry.

26. As part of planned capacity development, training and workshops were conducted under the project. Training was arranged for 5 batches of officers (with 30 in each batch), compared to a target of 17 batches; workshops were conducted for 6 batches of officers (versus 7 batches targeted at appraisal). Study tours to Malaysia and Singapore were arranged for 1 batch (versus 6 at appraisal). A total of 5 officials (versus the target of 20) received foreign training, while 107 officials (compared to a target of 420) received local training. The target numbers for training, workshops and study tours could not be achieved primarily because of time constraints, a lack of logistical support and failure of the consultant as mentioned by IDRA. The funding allocated for training that did not take place remained unspent.

27. The project commissioned a consulting firm to carry out comprehensive work in insurance sector to meet the project objectives and it submitted reports regarding (i) capacity building of the regulator;<sup>19</sup> (ii) the training, workshop and study tour;<sup>20</sup> (iii) draft rules and

<sup>17</sup> The Aries Group. 2011. *Final Report – Bangladesh: Enhancement of Governance and Capacity of the Capital Market – Component 4: ICB*. Dhaka.

<sup>18</sup> Insurance Development and Regulatory Authority Bangladesh. Draft Regulations. <http://www.idra.org.bd/idra-org/Draft-Regulations.htm>

<sup>19</sup> Maxwell Stamp Limited. 2011. *Volume 1, Capacity Building of the Insurance Development and Regulatory Authority*. Dhaka.

regulations for implementation by the regulator;<sup>21</sup> (iv) evaluation of financial performance and restructuring recommendations for state-owned insurance corporations;<sup>22</sup> (v) an actuarial evaluation for updating the mortality table;<sup>23</sup> and (vi) development of insurance professional bodies in Bangladesh.<sup>24</sup>

28. The project suggested a functional reorganization of IDRA, strengthening of its supervisory capacity, a process to upgrade insurance supervision, a management information system development plan, procedures and policies for offsite supervision, and a future inspection guide. A detailed insurance company monitoring system was developed that is reportedly now in use by IDRA;<sup>25</sup> however, this could not be verified because the project completion report team failed to communicate with IDRA officials despite repeated attempts. The project developed an organizational chart for IDRA and the authority is currently in the process of being staffed as recommended. IDRA has not yet installed a management information system for supervision of the industry.

29. As stipulated in the project design, the project provided restructuring options for two state-owned insurance corporations—Sadharan Bima Corporation and Jiban Bima Corporation (JBC)—based on an analysis of their business operations, financial performance and the impact of the new legislative regime on their operations. IDRA accepted the Sadharan Bima Corporation assessment report, but not the report on JBC on the ground that comments and observations of IDRA were not addressed properly in the report; IDRA also did not accept the actuarial evaluation that produced updated mortality tables for the life insurance industry and an assessment of premium levels on similar ground. The decision not to accept these reports has affected some project outputs. IDRA did not accept the website, developed by the consultant, citing that the website did not meet its requirements.

### **C. Project Costs**

30. The total project cost at appraisal was \$4.0 million, with an actual cost of \$3.1 million. The 22.5% decrease in the project cost resulted primarily from lower-than-expected bids received from the consultants, a reduction in the cost of procuring the BSEC surveillance system, and exchange rate fluctuations (the taka declined in value from \$1= Tk66.58 at appraisal to \$1= Tk78.14 at project closing). In addition, some payments to the consultants were not made because several of their reports were not accepted, and training funds were not fully utilized. The foreign currency cost decreased by 7.8% and the local currency cost by 46.1% because of lower utilization of government funds, and the provision by the implementing agencies of their own office space and vehicles. Details are in Basic Data.

### **D. Disbursements**

31. The time interval between initial and final disbursement was 43.6 months, against 13.8 months at appraisal. Actual disbursement was \$2.3 million compared to the original estimate of \$3.0 million. Reasons for the lower disbursements are detailed in para. 30. An undisbursed amount equivalent to \$0.916 million was cancelled during loan account closing. The imprest

---

<sup>20</sup> Maxwell Stamp Limited. 2011. *Volume 2, Report on Training, Workshops and Study Tours*. Dhaka.

<sup>21</sup> Maxwell Stamp Limited. 2011. *Volume 3, Draft Rules and Regulations*. Dhaka.

<sup>22</sup> Maxwell Stamp Limited. 2011. *Volume 4, Evaluation of Financial Performance of State Owned Insurance Corporations*. Dhaka.

<sup>23</sup> Maxwell Stamp Limited. 2011. *Volume 5, Actuarial Evaluation*. Dhaka.

<sup>24</sup> Maxwell Stamp Limited. 2011. *Volume 6, Development of Insurance Professional Bodies in Bangladesh*. Dhaka.

<sup>25</sup> Insurance Development and Regulatory Authority. 2012. *Project Completion Report*. Dhaka.

fund was highly useful in project implementation and was effectively utilized, with statements of expenditures regularly submitted by the executing agency to ensure adequate fund flow.

## **E. Project Schedule**

32. At appraisal the project was scheduled to start in March 2007 and to be completed by 30 June 2008. However, the project was actually declared effective in May 2007, with the first consultant for the Office of the Chief Controller of Insurance (OCCI)<sup>26</sup> not mobilized until August 2009; the project was closed on 31 December 2012, with an extension of 4.1 years. Initial delays in recruiting consultants affected project implementation. The project implementation schedule (appraisal and actual) is in Appendix 4.

## **F. Implementation Arrangements**

33. The Ministry of Finance (MOF) Bank and Financial Institutions Division (BFID) was the executing agency. BSEC, ICB, and IDRA were the implementing agencies. MOF was responsible for managing and overseeing the flow of funds for the project. The implementing agencies had their own respective project implementation units.

34. A high-level project steering committee was formed with the BFID secretary as the chairperson; members included representatives from BSEC, Economic Relations Division (ADB wing), the Planning Commission, Implementation Monitoring and Evaluation Division, and BFID. The project director of the BSEC part was member secretary of the project steering committee. The committee met nine times during the project period. Implementation arrangements were appropriate.

## **G. Conditions and Covenants**

35. The loan covenants were relevant to project design and implementation. All major loan covenants were generally complied with and no covenant was modified, suspended, or waived during implementation. The implementing agencies submitted audited financial statements of good quality on a yearly basis up to FY2013. The Loan Agreement required that “The Borrower shall ensure that (a) awareness and training programs for potential women investors are developed and undertaken under the Project to address their specific needs, and (b) such women investors participate in such trainings”.<sup>27</sup> Investment awareness courses for women were developed but the training was not conducted because of the poor response; BICM is now working with a women entrepreneur’s association to conduct the course. The status of loan covenants is in Appendix 5.

## **H. Consultant Recruitment and Procurement**

36. A total of 94 person-months of consulting services were planned for the project (32 person-months for BSEC, 6 person-months for ICB, 32 person-months for OCCI, and 24 person-months for an overall financial and administrative consultant). The consultant inputs for all components were fully utilized.

<sup>26</sup> Office of the Chief Controller of Insurance (OCCI) was the predecessor of Insurance Development & Regulatory Authority (IDRA).

<sup>27</sup> ADB. 2007. *Technical Assistance Loan Agreement*, Schedule 6, para 4, page 23. Manila.



37. The recruitment of the BSEC consultant was delayed by 804 days. The consultant selection committee met to short list candidates on 4 November 2007, but the consultant was not mobilized until 5 October 2010. Major delays included (i) the submission by the executing agency of the shortlist to ADB (160-day delay due to the introduction of a new request for proposal format); (ii) issuance by the executing agency of an invitation for contract negotiations after ADB approved the ranking (257-day delay); and (iii) signing of the contract by the executing agency (292-day delay). An individual overall financial and administrative consultant was recruited in a timely manner and completed the assignment satisfactorily with a 1-month extension.

38. OCCI consultant recruitment was delayed by 297 days. The consultant selection committee met to short list candidates on 31 January 2008, but the consultant was not mobilized until 2 August 2009. Major delays included (i) submitting the shortlist to ADB (66-day delay); (ii) ADB Consultants Selection Committee (CSC) evaluation meeting (61-day delay); (iii) signing of Consultants Selection Committee (CSC) evaluation minutes (40-day delay); and OCCI signing of the contract (65-day delay).

39. The recruitment of the ICB consultant was delayed by 1,085 days. The consultant selection committee met to short list candidates on 7 January 2008, but the contract with the consultant was not signed until 27 December 2010. Major delays included (i) submission of the the shortlist to ADB due to the introduction of a new request for proposal format (112-day delay); (ii) approval of technical evaluation incorporating ADB comments (63-day delay); (iii) issuance by the executing agency of an invitation for contract negotiations following ADB approval of the overall ranking (498-day delay); and (iv) commencement of negotiations (125-day delay).

40. However, following the recruitment of consultants, the project gained momentum and performance was satisfactory, in terms of achieving project outputs. The procurement of the surveillance system for BSEC was accomplished according to ADB's Procurement Guidelines 2010, although the procurement process started late. The surveillance system was procured and installed on 17 December 2012, at project completion.

## **I. Performance of Consultants, Contractors, and Suppliers**

41. The performance of the consultants and suppliers was *satisfactory*. The consultants performed satisfactorily in terms of preparing and submitting the required deliverables on time. However, IDRA did not accept all consultant reports because of disagreements over statistical methodology on which reports were prepared and not considering the comments and observations made by IDRA in the final reports. Part of the total contract amount was not paid and cancelled. The performance of the suppliers of the market surveillance system for BSEC, and the equipment and furniture for ICB and IDRA, was *satisfactory*. The training funds earmarked for ICB and IDRA were not fully utilized. A list of reports prepared by the respective consultants is in Appendix 6.

## **J. Performance of the Borrower, Executing Agency, and Implementing Agencies**

42. The performance of the MOF, as the executing agency, was *satisfactory*. MOF, with the help of its BFID, coordinated the implementing agencies' work and guided them on important issues. Government procedural issues delayed consultant recruitment inordinately, by about 3 years. ADB and the executing agency engaged in ongoing discussions to reduce the delay; however, considering the broad scope of work, a delay was probably unavoidable. Following consultant recruitment, the project implementation units constituted within the implementing

agencies worked proceeded to complete the project activities and achieve the target outputs. Except for the recruitment of consultants, the performance of the implementing agencies was also *satisfactory*. IDRA did not respond to the project completion report team's repeated requests for a meeting.

#### **K. Performance of the Asian Development Bank**

43. ADB successfully supported project implementation through prompt responses to requests from the executing agency and implementing agencies for approvals, disbursements, and monitoring. ADB fielded six review missions. ADB provided advisory assistance for project implementation, and supported the recruitment of consultants and procurement of goods. In addition, ADB took the lead in recruiting the individual consultants needed for project implementation in consultation with the government. However there was also a delay on the part of ADB in approving submissions for recruitment of consulting firms. Overall the performance of ADB was *satisfactory*.

### **III. EVALUATION OF PERFORMANCE**

#### **A. Relevance**

44. The project is rated *relevant*. Bangladesh is seeking to increase its GDP growth rate to 7%–8% per year, from an average rate of 5.3% per year during FY2000–FY2004, to achieve its national poverty reduction objectives and meet the Millennium Development Goal targets. The government's NPRS (footnote 2) aims to sustainably increase private investment, savings and economic growth rates to achieve the long-term goals of poverty reduction and social development. Financial sector development is critical to achieving these targets and meeting the twin goals of economic growth and poverty reduction. While development of the capital market is essential for efficient mobilization and allocation of resources, the market remained muted because of the lack of investors' confidence following the market crises in 1996 and 2010, allegedly due to fraudulent practices. In this context, it was essential to establish good governance of the capital market.

45. The project formulation and design was appropriate as it involved the major participants of the capital market and insurance sector and addressed key issues. Enhancement of the capacity and governance of regulators, stock exchanges and key intermediaries is fundamental to develop the financial market and restore investor confidence. The establishment of an automated surveillance system is a requirement to ensure transparency and governance of stock market operations. The insurance sector, which has been an important provider of long-term capital, continued to underperform in terms of penetration and mobilization of resources because of the absence of a proper regulatory framework and an empowered regulator. The project was aptly designed to frame new regulatory rules and regulations and strengthen the regulator under a new legislative regime in the insurance sector. The project was relevant to the ADB country strategy and program focus of supporting policy and institutional reforms to improve governance and efficiency in the finance sector (footnote 3). The project was also consistent with ADB's thematic process and operational interventions, and the government's NPRS. ADB is the only development partner that is assisting the government's capital market subsector, while the International Monetary Fund and the World Bank are supporting banking sector and bond market development.

## B. Effectiveness in Achieving Outcome

46. The project is rated *effective* on aggregate basis because it has achieved most of its envisaged outcomes by producing a majority of the crucial project outputs. The successful installation and subsequent operation of an automated market surveillance system in BSEC significantly expanded BSEC's capacity to effectively and efficiently monitor the market. BSEC can now detect a diverse range of manipulative behavior, such as short-selling, circular movement, spoofing, and wash sales, on a real-time basis, and take immediate action. The regulator's surveillance and analysis are now more reliable and efficient, which has disciplined market intermediaries, as reflected by the reduction in manipulative trading alerts (from 4,935 in January 2013 to 2,360 in June 2014).<sup>28</sup> The system became operational in December 2012, and has apparently reduced the number of irregularities, from 43 in FY2012 to 20 in FY2013 (footnote 7).

47. The human resources of the capital market regulator, insurance regulator and market intermediaries have been improved through overseas and local training, seminars, and study tours provided by the project in relevant disciplines; the trained staff members are for the most part working in their area of expertise. The project provided overseas training, seminars, and study tours to 38 staff members of MOF, BSEC, IDRA, DSE, and CSE, including on investigation and enforcement, forensic accounting and auditing, financial reporting and disclosure, and surveillance. The project also provided local training to 468 staff members from BSEC, IDRA, DSE, CSE and Central Depository Bangladesh Limited. Some ICB and IDRA training was not conducted because of time and logistical constraints.

48. The capital market achieved a significant milestone with the successful demutualization of the DSE and CSE. This has facilitated the attainment of envisaged governance outcomes for the stock exchanges by rationalizing the number board and committee members, most of whom are now independent, including the chairman. ICB, a key intermediary in the market, has adopted a majority of the recommendations relating to accounting and governance practices, and is in the process of re-corporatizing eight (out of nine) mutual funds. An examination system for market intermediaries has been devised but not implemented because it requires rules to be amended. A training unit within BSEC has not yet been established, but a national training institute has been operational. The project also recommended actions to increase the supply of securities. Overall, the project was *effective* with respect to achieving outcomes relating to the capital market sector.

49. The insurance sector has been streamlined by the passage of the new Insurance Act, 2010 and the Insurance Development and Regulatory Act, 2010, which empowered IDRA as the new regulatory authority. IDRA began its work in 2011 and is currently recruiting 191 staff (currently the authority has less than 10 staff) and associated infrastructure, in line with recommendations, which will significantly expand its capacity to regulate the industry. Although IDRA did not fully accept the reports on the mortality tables and the reconstitution of JBC, it has accepted a majority of project-generated reports (4.5 out of 6). The regulator has also issued 11 new and revised rules and regulations on the basis of project recommendations, and more are under process of being issued. In view of this, the project was *effective* with respect to achieving outcomes relating to the insurance sector.

---

<sup>28</sup> Bangladesh Securities and Exchange Commission Surveillance Department.

### C. Efficiency in Achieving Outcome and Outputs

50. The project was *less than efficient* in achieving the intended outcome and output because of the long procedural delay in consultant recruitment (approximately 3 years), which led to an extension of the project by 4.1 years. The expected benefits and impacts have largely been realized. The installation of an effective market surveillance system has enhanced the capacity of BSEC and the exchanges to monitor and stop abuses. BICM is ready with the curriculum to conduct mandatory examinations for market intermediaries. The establishment of the BSEC training unit was delayed because of an initial decision by the regulator not to establish it and to outsource training to BICM. BSEC has now decided to establish the training academy by 2016. Issuance of new regulations and effective supervision of the insurance industry were also delayed, because IDRA is not yet properly equipped in terms of manpower and infrastructure. Although the project largely achieved its intended impact and outcome, it did so in a *less than efficient* manner.

### D. Preliminary Assessment of Sustainability

51. Overall, the project is rated *likely sustainable*, because major policy decisions have been made, major actions implemented, and stakeholders have taken good ownership. The procurement of the market surveillance system has been followed by intensive training of the regulator and exchanges, and the surveillance team now has the needed human resources. BSEC depends heavily on reports generated by the system for taking action. The government has passed the Exchanges Demutualization Act, 2013 to separate trading rights from ownership and management of the exchanges. Demutualization schemes to implement the act have already been approved by BSEC and taken effect, resulting in reconstitution of the exchange boards and committees. The government has also passed the National Insurance Policy, 2014 to enhance insurance penetration. This policy, which has set timelines for deliverables, is now the core document for the development of the insurance industry, and substantially in line with project recommendations. IDRA begun formulating new and revised regulations on the basis of draft regulations prepared by the project. ICB has reflected the adopted recommendations in its annual accounts and constituted new departments and recruited required key staff in line with project recommendations. The project completion review team visited the executing agency, implementing agencies (except IDRA), and market intermediaries and found that the project outputs are in place and are being largely followed. In short, because the critical policy actions have been taken and are supported by the government, regulatory agencies and market participants, the project is considered *likely sustainable*.

### E. Impact

52. The project's overall impact is *significant*. The project substantially achieved the impact indicators contained in the design and monitoring framework in Appendix 1. For the capital market sector, the market capitalization–GDP ratio has increased from 4.1% in FY2004 to 29.1% in FY2013.<sup>29</sup> The project performed well according to this sole indicator, but the use of other indicators—such as the price–earnings ratio, increase in trade turnover and growth of new capital issues—provides a more complete picture of project impact. The price–earnings ratio of DSE was 18.4 in 2004 and 15.0 in 2013, validating comparability of capitalization to GDP ratio as the price–earnings ratio did not change significantly. The monthly average turnover of DSE increased by 37.7% annually, on average, during 2004–2013. The number of initial public offerings increased by 25% annually, on average, during FY2005 to FY2013, but the number of

<sup>29</sup> Bangladesh Securities and Exchange Commission. 2013. *Annual Report 2012-13*.

new issues remained stagnant (15 in FY2005 and 13 in FY2013).<sup>30</sup> Though the achievement of impact may be attributed to the project, it may not be the result of a single intervention. Nevertheless, the project has positively impacted the market in sustaining the confidence of the investors by bringing transparency and governance as reflected in sustainability of market after the crash of 2010. The project was classified as category C for the environment, involuntary resettlement and indigenous peoples safeguards. The capital market performance trend is in Appendixes 7 and 8.

53. For the insurance sector, the stipulated impact indicator is the growth rate (3-year moving average) of life insurance premiums. Under this benchmark, premiums increased by 21.7% in 2004, but by only 4.2% in 2013, versus the target of 25%. The growth rate of premiums for general insurance increased from 12% in 2004 to 15.2% in 2013, with a target of 15%. While general insurance has achieved the desired impact, life insurance has not, suggesting a rating of *moderate*. However, the original impact indicator should be supplemented by other alternate impact indicators, such as the growth of market penetration (gross premium–GDP ratio), insurance density (gross premium per capita) and investment assets. Insurance penetration in life insurance increased from 0.45% in 2004 to 0.55% in 2013. Penetration of general insurance remained almost stagnant, at 0.20% in 2004 and 0.21% in 2013. Growth of life insurance density was 19.2% in 2004 and –0.6% in 2013, while growth of general insurance density was 13.8% in 2004 and 15.2% in 2013. However, the investment assets managed by the insurance industry increased significantly, by an average of 24% annually during 2004–2012.<sup>31</sup> The project should not be assessed solely by current achievement of the numerical impact assessment target. The project was the first major intervention in the long-neglected insurance sector, and successfully overhauled the regulatory framework; in addition, further empowerment of regulators and implementation of recommendations are ongoing a result of the project. The true impact is expected to be felt in the medium to long term. Considered from this perspective, the impact is *significant*. The growth trend in the insurance sector is in Appendix 9.

#### IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

##### A. Overall Assessment

54. The project is rated *successful*. It was *relevant* in addressing core issues relating to the capital market and insurance sector, which are important for catalyzing economic growth and poverty alleviation in line with government and ADB priorities. The project was *effective* in achieving its major outcomes in the capital market by installing an automated market surveillance system and demutualizing the stock exchanges, and provided comprehensive guidance for the overhaul of the insurance sector. However, the project attained its outcomes and outputs in a *less than efficient* manner because of a delay of over 4 years, and failure to fully conduct the required training programs for all components. Despite installation of a market surveillance system, demutualization of exchanges, and strengthening of regulators, investor confidence has not been fully restored; other variables—such as enforcement of laws, governance of listed and unlisted companies, and the professional knowledge of investors—also affect investor confidence levels. The supply of securities has not increased because of the financial benefits in remaining unlisted, and access to low-cost funding from the banking sector. The project is *likely sustainable* as the government, the regulators and other stakeholders have owned the project and major recommendations have already been implemented while others are being implemented. The project has strengthened the target sectors and their regulators,

<sup>30</sup> Data collected from Dhaka Stock Exchange

<sup>31</sup> Bangladesh Insurance Association. 2013. *Insurance Year Book 2012*. Dhaka; 2013 figures are provisional

and enabled sustained growth of the capital market and insurance sector, which are essential to the long-term effort of building investor confidence.

## **B. Lessons**

55. Early proactive engagement with project stakeholders could have been done for readiness in critical areas. Although the project largely achieved its intended outcome and outputs and had significant impact on the capital market and insurance sector of the country, implementation began much later than scheduled because of delayed recruitment of consultants.

56. Training component could be spread over the implementation period. The training component related to ICB and IDRA were not fully used because of time constraints and logistical problems. There appeared to a rush at the end of project period to find appropriate trainings.

57. Commitment of stakeholders played crucial role to achieve success. Despite delay in recruitment of consultants, commitment and ownership of executing agency and implementing agencies played the vital role in achieving the intended results.

58. Information could have been updated and stored in a better way. There have been difficulties in acquiring the project information needed to prepare the project completion report (e.g., a full set of consultant's reports). The underlying reason for the delay in consultant recruitment could not be discerned from the consultant recruitment and monitoring sheet because of the absence of detailed explanations for major delays.

## **C. Recommendations**

### **1. Project Related**

59. **Future monitoring.** The market surveillance system is now operational, and BSEC should monitor subsequent releases or advancements of this software system to identify potential market manipulative practices to make the system more effective.

60. **Covenants.** One condition (in Schedule 6, para. 4 of the Loan Agreement) was not complied with. The training program for potential women investors was developed under the project, and should be reviewed.

61. **Further action or follow-up.** BSEC should form an inter-market surveillance unit by 2015, and establish a training unit or academy by 2016. BSEC is also required to implement the accreditation system for market intermediaries by making the needed amendments to its rules and regulations. ICB is required to complete re-corporatization of its eight mutual funds by 2015. IDRA is required to complete the recommended staffing and infrastructure development, which are needed for effective industry supervision.

62. **Additional assistance.** The project is part of a continuing effort by ADB to assist development of a vibrant capital market and insurance sector for efficient and effective mobilization of resources. The second CMDP is currently being implemented and a third phase of the CMDP is being designed. Unfinished training from this project should be considered for inclusion in the upcoming third CMDP.

63. **Communications with the Insurance Development and Regulatory Authority.** The ADB project completion review team was unable to communicate with any IDRA officials to discuss this project, and it is recommended that this issue be discussed when designing future projects involving IDRA.

64. **Impact indicators.** Alternate or supplementary impact indicators—such as the price–earnings ratio, increase in turnover and growth of new capital issues—should be included in future projects to assess impacts in capital market. Similarly, the insurance sector indicators should include insurance penetration and insurance density.

65. **Timing of the program performance evaluation report.** ADB could prepare the project performance evaluation report in 2016 as there are no outstanding issues that would necessitate postponement.

## 2. General

66. **Project readiness:** Project readiness should be ensured before project approval, in particular taking advance steps to recruit consultants. The government should be ready to sign contracts with consultants immediately after ADB approval and signing of the loan agreement.

67. **Information retention.** There should be a robust framework to ensure all project information and sources are maintained in a structured manner, both in ADB and the executing and implementing agencies. This will assist in post-implementation analysis and enable issues of employee turnover to be addressed. The consultant recruitment and monitoring sheet should include more detailed information.

68. **Communication with stakeholders.** ADB staff was unable to communicate with the IDRA officials to discuss this project despite repeated attempts. There should be a mechanism to keep communications channels open, and could be a disagreement resolution framework under the auspices of the Economic Relations Division of the Ministry of Finance.

69. **Capacity building of market intermediaries.** While capacity building of regulatory agencies is the highest priority, ADB may consider providing training and exposure to market intermediaries to ensure more uniform development of the capital market. This could be achieved by creating appropriate linkages, and not necessarily based on ADB funding.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
<b>Impact</b>			
Sound and efficient capital market and insurance sector to help accelerate economic growth and poverty reduction	<p>Ratio of market capitalization to GDP increased from 6.7% in 2004 to 10% in 2010</p> <p>Growth rate (3-year moving average) of premium in life insurance increased from 22% in 2004 to 25% in 2010 and general insurance increased from 11% in 2004 to 15% in 2010.</p>	<p>Annual reports (BSEC, DSE, CSE)</p> <p>Annual report (OCCI)</p>	<p><b>Achieved.</b> Ratio of market capitalization to GDP increased from 4.1% in FY2004 to 29.1% in FY2013. Although the ratio was at its highest at 43.9% in FY2010 during the stock market bubble, it subsequently decreased to a sustainable level following the crash in 2010. Nevertheless, the ratio shows a strong positive trend during 2003–2013.</p> <p><b>Achieved.</b> Growth rate (3-year moving average) of premium in life insurance increased from 21.7% in 2004 to 22% in 2010, and then decreased to 4.2% in 2013. The growth rate of premiums for general insurance increased from 12% in 2004 to 15.8% in 2010, and then decreased to 15.2% in 2013. While general insurance has performed comparatively well, the life insurance business did not perform as expected. However, the impact of the project has yet to be fully realized. As a significant step for the development of insurance sector, the government adopted the National Insurance Policy in 2014 with precise short-, medium- and long-term activities in line with project recommendations, with the goal of increasing insurance penetration to 4% by 2021 (from 0.9% in 2011). The insurance regulator has issued rules and regulations on the basis of project recommendations and is in the process adding staffed and infrastructure in line with project recommendations. The project output and outcomes project are expected to change the insurance sector significantly over time.</p>
<b>Outcome</b>			
Improvement of governance, efficiency and investor confidence in capital market and insurance sector	Activities of Surveillance Department of BSEC expanded in terms of number as well as analytical quality		<b>Achieved.</b> The establishment of an automated surveillance system has increased the effectiveness and efficiency of BSEC surveillance and analysis. It can now detect a wide range of



Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
	<p>Benchmark number of trainees and licenses established.</p> <p>Reports of the insurance regulatory authority expanded in numbers as well as analytical quality.</p>		<p>market manipulations, such as short-selling, circular movement, spoofing, and wash sales on a real-time basis and take immediate action.</p> <p><b>Substantially achieved.</b> The project provided overseas training, seminar, and study tours to 38 persons from MOF, BSEC, IDRA, DSE, and CSE; local training was provided to 468 persons from BSEC, IDRA, DSE, CSE and CDBL. Some training for ICB and IDRA was not conducted because of time and logistical constraints. The project reviewed all rules and assessed the status of governance practices of market intermediaries and recommended the adoption of international best practices in line with IOSCO guiding principles. BSEC has been assessing the recommendations, but no new rules have been introduced. An accreditation system has been developed but is not operational. Licensing process developed for market intermediaries.</p> <p><b>Substantially achieved.</b> On the basis of project recommendations, the insurance regulatory authority has issued 11 rules and regulations. In order to strengthen the new regulator (IDRA) and the supervisory framework, the project provided comprehensive recommendations including functional reorganization of IDRA, MIS system development, and policies and procedures for onsite and offsite supervision. Currently IDRA is working with a skeleton staff of less than 10 persons, and does not have capacity to regulate the market as expected. However, IDRA is recruiting 191 staff and associated infrastructure, in line with recommendations, which will significantly increase its capacity to regulate the industry.</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
<b>Outputs</b>			
Part 1. Enhancement of Governance and Capacity of Capital market			
Component 1. BSEC			
(i) Strengthening the Market Surveillance Systems			
<p>Surveillance System installed at BSEC</p> <p>Strengthened Surveillance capacity</p>	<p>Automated on-line surveillance system</p> <p>Staff Training</p> <p>Regulatory review committee and inter-market surveillance unit established</p>	<p>Annual Reports (BSEC, DSE, CSE)</p> <p>BSEC Website notices</p> <p>Training program and evaluation</p>	<p><b>Achieved.</b> Automated surveillance system, InstantWatch, installed and operational at BSEC on 17 December 2012.</p> <p><b>Achieved.</b> As part of the procurement of the surveillance system contract, a visit was undertaken to Sweden for 5 BSEC staff, and a 5-day training program conducted for 16 BSEC staff.</p> <p><b>Substantially achieved.</b> A memorandum of understanding among regulatory entities—BSEC, Bangladesh Bank, IDRA and the Micro-Credit Regulatory Authority—was signed on 23 September 2012 for better coordination and augmentation of supervisory initiatives. The inter-market surveillance unit was not established formally, but the intended functions and activities are being performed through bi-monthly coordinated surveillance meetings involving BSEC, DSE and CSE. BSEC will formalize a surveillance committee by the end of 2014.</p>
(ii) Further Strengthening the Capacity of BSEC			
<p>Improved BSEC capacity and governance capabilities</p> <p>Training unit Established</p>	<p>Strengthened linkage between training and assignment</p> <p>BSEC training unit established with 3 year plan to implement</p>	<p>Annual Report BSEC</p> <p>BSEC website notices</p> <p>Personnel information of BSEC</p> <p>Certificates of course completion issued to BSEC staff who have attended internal</p>	<p><b>Achieved.</b> Trained staff members were largely retrained, and posted in positions where they could make use of the training they received.</p> <p><b>Not achieved.</b> The BSEC training unit was not established because of an initial decision by BSEC to assign training to BICM in an effort to conserve resources. BSEC has subsequently decided to establish an internal training unit or academy by 2016.</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
	In-house training	courses Training program and evaluation	<b>Achieved.</b> A total of 25 training courses were conducted at BICM and Chittagong Stock Exchange premises because of space constraints at BSEC.
	Overseas training	Presentations (with supporting documentation) to BSEC staff by trainees who have undergone overseas training or secondment	<b>Achieved.</b> A total of 7 overseas training courses were conducted on the APEC Financial Regulators Training Initiative (FRTI)
	Risk management review		<b>Achieved.</b> The project conducted a risk management review at three levels—the regulator, the stock exchanges and the market intermediaries—so that BSEC can identify potential weaknesses in the market structure.
Component 2: Stock Exchanges			
(i) Enhancing the Capacity of Management and Governance of the Stock Exchanges			
Enhanced stock exchange staff capacity	Staff training	Annual reports (BSEC, DSE, and CSE)	<b>Achieved.</b> DSE and CSE staff obtained overseas and local training along with BSEC staff. The DSE and CSE components were merged with the BSEC component. Various regular training sessions were provided in the DSE training academy.
Improved governance and management of stock exchanges	Board structure and committees rationalized	Announcements of BSEC, DSE, and CSE Training program and evaluation  Certificates of completion of internal training courses issued to exchange staff  Minutes of boards and committees	<b>Achieved.</b> The structure of the DSE and CSE boards and committees have been altered through implementation of the demutualization scheme:  (i) Board size reduced to 13 from 24. (ii) The chairman of the board is selected from among the independent directors. (iii) The majority of the members (i.e., 7 directors) are independent; 4 are drawn from the shareholders; 1 is a strategic partner; and 1 is the managing director, serving as ex-officio director. (iv) The following five committees are currently

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
			<p>in place at the stock exchanges:</p> <p>(a) Nomination and Remuneration Committee;</p> <p>(b) Regulatory Affairs Committee;</p> <p>(c) Audit and Risk Management Committee;</p> <p>(d) Appeals Committee; and</p> <p>(e) Conflict Mitigation Committee.</p> <p>A majority of the members of each committee are independent.</p>
(ii) Increasing Demand for and Supply of Securities			
Recommendations made to deepen the capital market	Consultant study report	Comments on consultant reports (BSEC, DSE, CSE)	<b>Achieved.</b> Consultant's study report in place for enhancing supply of securities.
Component 3: Market Intermediaries – Enhancing Capacity and Operating Standard			
<p>Licensing regime strengthened</p> <p>National Capital Market Institute established</p>	<p>New or revised rules made if necessary</p> <p>Examinations system established and operational</p> <p>Establishment of National Capital Market Institute</p>	<p>SECs announcement</p> <p>Annual report (BSEC)</p> <p>Intermediaries complying with licensing criteria by taking examinations</p> <p>BSEC/institution website published examinations results</p> <p>Feedback from public sources and the trainees</p>	<p><b>Not achieved.</b> The project reviewed all rules and assessed the status of governance practices of market intermediaries and recommended the adoption of international best practices in line with IOSCO guiding principles. BSEC has been assessing the recommendations but no new rules introduced. BSEC supervises and investigates the stock brokerage firms to ensure compliance and proper operation following a set of guidelines prepared by the project.</p> <p><b>Substantially achieved.</b> The project developed a mandatory examination schedule and curriculum, and changes as required to existing rules to make accreditation mandatory for market intermediaries. However the examination system is not yet operational as it requires that rules be amended, which BSEC is in the process of doing.</p> <p><b>Achieved.</b> The national capital market institute was established and is operational as BICM. The institute has been assigned to conduct mandatory</p>

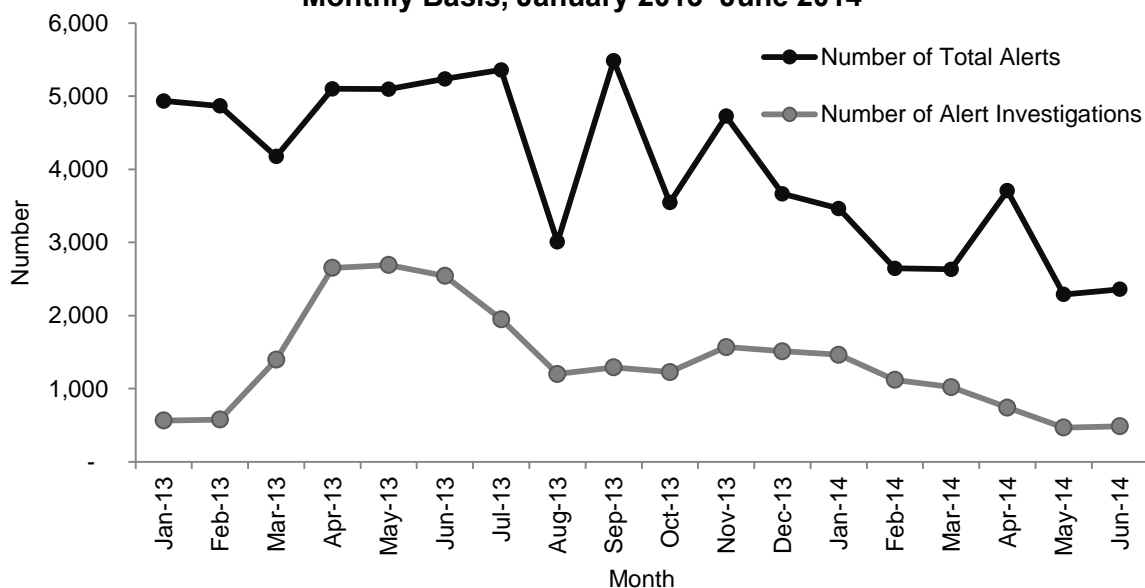
Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
	Investment awareness courses for women developed		examinations for market intermediaries.  <b>Achieved.</b> Investment awareness courses for women were developed. No courses were conducted despite being advertised in newspapers. BICM is working with a women entrepreneurs' association to conduct exclusive courses for women.
Component 4: ICB Enhancement of Governance and Capacity			
Recommendation of international best practices in accounting, audit and management for ICB and its subsidiaries	Reports to improve accounting, audit and management  Capacity building program to improve governance	Consultant's reports  Annual report ( ICB )	<b>Achieved.</b> The project made recommendations for improving financial, audit, governance practices of ICB and its subsidiaries. ICB successfully implemented a majority of the recommendations relating to accounting and corporate governance.  <b>Partly achieved.</b> Training was conducted on financial reporting and corporate governance for ICB staff. However, the training component was not fully implemented because of time constraints.
Part 2. Enhancement of Governance and Capacity of the Insurance Sector			
Capacity building and training programs for OCCI  Revised rules and regulations based on new insurance Acts  Recommendations made to improve the governance of state-owned insurance corporations	Training for regulators and industry New rules and regulations        Development plan for state-	Annual report ( OCCI )  Government's announcement  Consultant reports	<b>Training—partly achieved.</b> Training was arranged for 5 batches of trainees (versus a target of 17 batches) and workshops were conducted for 6 batches (target of 7). A study tour was arranged for 1 batch (target of 6) to Malaysia and Singapore.  <b>New rules and regulations—achieved.</b> The government passed the new Insurance Act, 2010; and Insurance Development & Regulatory Act, 2010. Within the provisions of the new Insurance Act, 2010 and on the basis of draft regulations prepared by the project, IDRA has been promulgating new rules and regulations (three rules and eight regulations have been approved and circulated to date).  <b>Partly achieved.</b> The project prepared a report

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Achievement
	owned insurance corporations		titled “Evaluation of Financial Performance of State Owned Insurance Corporations”, which analyzed the business operations and provided recommendations on restructuring of two state-owned insurance corporations (SBC and JBC). IDRA did not accept the JBC portion of the report.

APEC = Asia-Pacific Economic Cooperation, BICM = Bangladesh Institute of Capital Market , BSEC = Bangladesh Securities and Exchange Commission, CDBL = Central Depository Bangladesh Limited , CSE = Chittagong Stock Exchange, DSE = Dhaka Stock Exchange, FRTI = Financial Regulators Training Initiative, GDP = gross domestic product, ICB = Investment Corporation of Bangladesh, IDRA = Insurance Development and Regulatory Authority, IOSCO = International Organization of Securities Commissions, MIS = management information system, MOF = Ministry of Finance, OCCl = Office of the Chief Controller of Insurance,

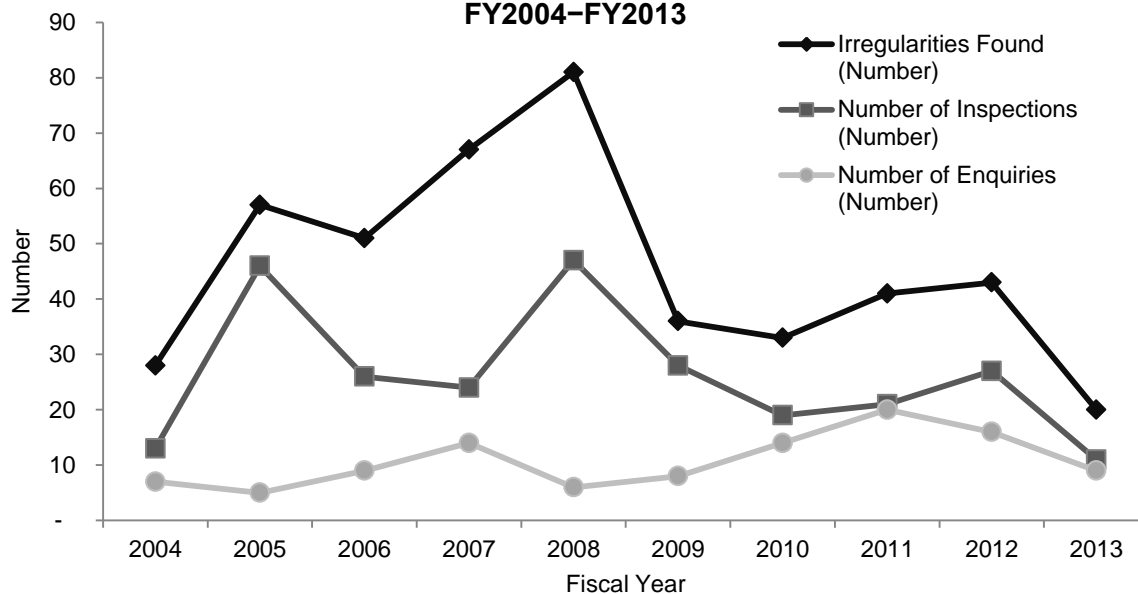
### SURVEILLANCE IN THE BANGLADESH CAPITAL MARKET

**Figure A2.1: Trend of Alerts Generated by the Surveillance System of Bangladesh Securities and Exchange Commission on a Monthly Basis, January 2013–June 2014**



Source: Bangladesh Securities and Exchange Commission

**Figure A2.2: Trend of Irregularities, Inspections and Enquiries Conducted by Bangladesh Securities and Exchange Commission, FY2004–FY2013**



FY = fiscal year

Source: Bangladesh Securities and Exchange Commission Annual Reports

**TRAINING PROVIDED TO THE  
BANGLADESH SECURITIES AND EXCHANGE COMMISSION**

**Table A3.1 Overseas Training**

<b>Sl. No.</b>	<b>Course Title and Country</b>	<b>No. of Participants</b>	<b>Participating Organization</b>	<b>Date Started</b>	<b>Date Completed</b>	<b>Report Submitted</b>
1	Regional Seminar on Investigation and Enforcement, Mumbai, India	07	MOF (BFID)-1 <sup>1</sup> BSEC-4 DSE-1 CSE-1	06 Feb 2012	10 Feb 2012	Yes
2	Regional Seminar on Financial Analysis Forensic Accounting and Auditing, Auckland, New Zealand	03	MOF-1 SEC-2	05 Mar 2012	09 Mar 2012	Yes
3	Regional Seminar on Financial Reporting and Disclosure, Manila, Philippines	03	MOF (BFID)-1 BSEC-2	25 Jun 2012	29 Jun 2012	Yes
4	Foreign Study Tour of Senior Officials, UK, France & Spain	02	BSEC-2	22 Aug 2012	01 Sep 2012	Yes
5	Regional Seminar on Cross Border Supervision and Enforcement, Bangkok, Thailand	06	MOF (BFID)-1 BSEC-5	27 Aug 2012	31 Aug 2012	No
6	Regional Seminar on Market Surveillance and Derivatives Market, Kuala Lumpur, Malaysia	07	MOF(BFID)-2 BSEC-4 Planning Commission-1	05 Nov 2012	09 Nov 2012	No
7	Training on Surveillance System, Sweden (as per bidding document)	05	BSEC-5	30 Sep 2012	04 Oct 2012	No

BFID = Bank and Financial Institutions Division, BSEC = Bangladesh Securities and Exchange Commission, CSE= Chittagong Stock Exchange, DSE = Dhaka Stock Exchange, MOF = Ministry of Finance, UK = United Kingdom  
Source: Bangladesh Securities and Exchange Commission

<sup>1</sup> Numbers, following the organization names, mean participant numbers.



**Table A3.2 Local Training**

<b>Sl. No.</b>	<b>Course Title</b>	<b>No. of Participants</b>	<b>Participating Organization</b>	<b>Date Started</b>	<b>Date Completed</b>
1	Performing On-site Inspections of Securities Brokerage Firms	20 persons (2 days)	SEC-7 <sup>2</sup> DSE-8 CSE-3 CDBL-2	25 Sep 2011	26 Sep 2011
2	Hands-on Pilot On-site Inspection of Brokerage Firms	20 persons (2 days)	SEC-7 DSE-8 CSE-2 CDBL-2	27 Sep 2011	28 Sep 2011
3	Off-site and On-site Inspections- Report and Letter Writing	20 persons (1 day)	SEC-7 DSE-8 CSE-3 CDBL-2	29 Sep 2011	29 Sep 2011
4	Performing on-site Inspection of Securities Brokerage Firm	20 persons (1 day)	SEC-7 DSE-8 CSE-5	01 Oct 2011	01 Oct 2011
5	Hands-on Pilot On-site Inspection of Brokerage Firms.	21 persons (1 day)	DSE-3 CSE-16 CDBL-2	01 Oct 2011	01 Oct 2011
6	Off-site and On-site Inspection- Report & Letter Writing	21 persons (1 day)	DSE-3 CSE-16 CDBL-2	02 Oct 2011	02 Oct 2011
7	Regulation of the Securities Market in Bangladesh	20 persons (1 day)	SEC-8 DSE-7 CSE-5	12 Jan 2012	12 Jan 2012
8	Effective Supervision of Market Intermediaries	20 persons (2 days)	SEC-4 DSE-7 CSE-5 CDBL-4	15 Jan 2012	16 Jan 2012
9	Management and Supervision of Securities Business- Role of Senior Management	20 persons (2 days)	SEC-4 DSE-11 CSE-5	17 Jan 2012	18 Jan 2012
10	Risk Management of Securities Market from Regulatory Perspective	20 persons (1 day)	SEC-5 DSE-7 CSE-5 CDBL-3	19 Jan 2012	19 Jan 2012
11	Pilot On-site Inspection of Stock Exchanges	20 persons (2 days)	SEC-4 DSE-11 CSE-5	22 Jan 2012	23 Jan 2012
12	Market Surveillance	20 persons (2 days)	SEC-8 DSE-5 CSE-5 CDBL-2	24 Jan 2012	25 Jan 2012
13	Market Surveillance	19 persons (2 days)	DSE-4 CSE-15	28 Jan 2012	29 Jan 2012
14	Effective Supervision of Market Intermediaries	20 persons (2 days)	DSE-4 CSE-13 CDBL-3	30 Jan 2012	31 Jan 2012
15	Risk Management of Securities Market from Regulatory Perspective	20 persons (1 day)	DSE-4 CSE-13 CDBL-3	01 Feb 2012	01 Feb 2012

<sup>2</sup> Numbers, following the organization names, mean participant numbers

## 26 Appendix 3


<b>Sl. No.</b>	<b>Course Title</b>	<b>No. of Participants</b>	<b>Participating Organization</b>	<b>Date Started</b>	<b>Date Completed</b>
16	Management and Supervision of Securities Business- Role of Senior Management	20 persons (1 day)	SEC-4 DSE-4 CSE-12	02 Feb 2012	02 Feb 2012
17	Regulation of the Securities Market in Bangladesh	20 persons (1 day)	SEC-4 DSE-4 CSE-12	04 Feb 2012	04 Feb 2012
18	Pilot On-site Inspection of Stock Exchanges	20 persons (2 days)	SEC-1 DSE-4 CSE-15	06 Feb 2012	07 Feb 2012
19	Understanding of IAS, IFRS and ISA	20 persons (7 days)	SEC-6 DSE-8 CSE-6	08 Apr 2012	16 Apr 2012

CSE = Chittagong Stock Exchange, CDBL = Central Depository Bangladesh Limited, DSE = Dhaka Stock Exchange, IAS = International Accounting Standards, IFRS = International Financial Reporting Standards, ISA = International Standards on Auditing, SEC = Securities and Exchange Commission  
Source: Bangladesh Securities and Exchange Commission

## PROJECT IMPLEMENTATION SCHEDULE

Component	2006			2007				2008				2009				2010				2011				2012			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Preparatory Actions</b>																											
Establishment of PMU and PIUs																											
Selection of International Consultant Firms																											
<b>Part 1: Enhancement of Governance and Capacity of the Capital Market</b>																											
<b>Component 1: SEC</b>																											
<b>1.1 Strengthening the Market Surveillance System</b>																											
Define Requirements and Write RFP																											
Evaluate Responses and Sites Visit																											
Contract Negotiations																											
Test and Introduce																											
Training and Manuals																											
Strengthening of Surveillance of Exchanges																											
<b>1.2 Further Strengthening of Capacity of SEC</b>																											
Training Unit Establishment																											
In-House Training																											
Overseas Secondments																											
Organisation of Training																											
Risk Management Review																											
<b>Component 2: Stock Exchange</b>																											
Training																											
Study to Facilitate Exchange Transaction and to Increase Market Su																											
Improvement of Governance																											
<b>Component 3: Market Intermediaries</b>																											
Licensing Review																											
Overseas Institute Visits																											
New Rules																											
Training Prepared																											
Capital Market Institute Establishment																											
Capital Market Institute Operation																											
Examination Start																											
Women's Courses																											
<b>Component 4: ICB</b>																											
Review of Accounting, Audit, and Management Practices																											
Dissemination of Recommendations																											
<b>Part 2: Enhancement of Governance and Capacity of the Insurance Indus</b>																											
Review of Legal Framework																											
Drafting New Regulations																											
Strengthening of Regulator																											
Management Information System Installment																											
Update of Mortality Tables and Review of Premium																											

ICB=Investment Corporation of Bangladesh, PIU=project implementation unit, PMU=project management unit, Q1=first quarter, Q2=second quarter, Q3=third quarter, Q4=fourth quarter, RFP=request for proposal, SEC=Securities and Exchange Commission

■ Appraisal  
 Actual

**STATUS OF COMPLIANCE WITH LOAN COVENANTS**

<b>Covenant(s)</b>	<b>Reference in Loan Agreement</b>	<b>Timeline</b>	<b>Status</b>
In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement	Section 4.01	Throughout the Project	Complied with.
The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	Section 4.02.(a)	Throughout the Project	Complied with. The project accounts were audited by Foreign Aided Projects Audit Directorate on annual basis and were submitted within the covenanted time frame. The accounts were reported as "unqualified". Each year's report included statement on usage of loan proceeds, statement of expenditures, imprest account, and a management letter.
The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.	Section 4.02 (b)	Throughout the Project	Complied with.
The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.	Section 4.03.	Throughout the Project	Complied with.
1. MOF-FD as Project Executing Agency, shall be responsible for overall execution of the Project,	Schedule 6, para. 1	Throughout the Project	Complied with.

Covenant(s)	Reference in Loan Agreement	Timeline	Status
including preparation and submission of required reports to ADB. MOF-FD shall establish the PMU, to be headed by the Project co-ordinator at the level of joint secretary and shall ensure that appropriate full-time staff are assigned to the PMU, and adequate office space and facilities, transport, and secretarial support are provided to the PMU as needed. The PMU shall (a) coordinate day to day implementation of the Project, (b) provide administrative and fiduciary support to the Project Implementing Agencies, and (c) support MOF-FD in reporting on the progress of the Project and the use of the Project funds.			
(a) BSEC shall be the Project Implementing Agency for Part 1, Components 1 to 3 and shall implement Part 1, Component 2 in cooperation with CSE and DSE;	Schedule 6, para. 2(a)	Throughout the Project	Complied with.
(b) ICB shall be the Project Implementing Agency for Part 1, Component 4 and shall ensure that all reports and information necessary for the review of accounting and audit standards and practices of ICB and its subsidiaries and affiliates are available in the requested form and in a timely manner; and	Schedule 6, para. 2(b)	Throughout the Project	Complied with.
(c) OCCI shall be the Project Implementing Agency for Part 2 and it shall commence drafting implementing regulations once the draft Insurance, Takaful (Islamic Insurance), and Insurance Regulatory Authority Acts are approved by the Cabinet of the Borrower, so as to ensure the efficient transition and early functioning of the proposed insurance regulatory authority. OCCI shall ensure that all reports and information necessary for the study and development plan to deal with any impact from the proposed legislation and implementing regulations on the state-owned insurance corporations are available in the requested form and in a timely manner.	Schedule 6, para. 2©	Throughout the Project	Complied with.
Each Project Implementing Agency shall (i) establish a PIU, which is responsible for (A) day-to-day implementation of their respective Parts or Components; and (B) liaising with concerned agencies of the Borrower as may be required, and (ii) provide adequate office space and facilities, transport, secretarial support and qualified local counterpart staff to the respective PIU as needed.	Schedule 6, para. 3(a)	Throughout the Project	Complied with.

Covenant(s)	Reference in Loan Agreement	Timeline	Status
Each PIU shall be headed by a Project director in the position of: (i) executive director level in BSEC; (ii) general manager level in ICB; and (iii) controller of insurance, in OCCI.	Schedule 6, para. 3(b)	Throughout the Project	Complied with.
The Borrower shall ensure that (a) awareness and training programs for potential women investors are developed and undertaken under the Project to address their specific needs, and (b) such women investors participate in such trainings	Schedule 6, para. 4	Continuous	Being complied with.
Benefits and performance benchmark indicators, based on the Borrower's project plan agreed between the Borrower and ADB will be incorporated in the design of the Project performance monitoring system (PPMS) to facilitate the monitoring and evaluation of Project benefits. Data Collection and monitoring shall be undertaken by the PIUs and overseen by the PMU as part of the standard procedures required by ADB through the PPMS activities	Schedule 6, para. 5	Throughout the Project	Complied with.
The Borrower and ADB shall jointly conduct Project review, the first to be conducted within 12 months from the Effective Date. The review shall cover progress of implementation, financial performance, staffing of the Project and compliance with the conditions in this Loan Agreement. After each review, the Borrower and ADB shall discuss the measures needed to address identified difficulties, if any and the Borrower and/or ADB shall implement the measures in a timely manner.	Schedule 6, para. 6	Throughout the Project	Complied with.

## REPORTS SUBMITTED BY CONSULTANTS

Component	Consultant	Report	Recruitment Date	Report Date
Securities and Exchange Commission	The International Securities Consultancy Limited (ISC)	Manual for Onsite Inspection of Securities Brokerage Firms	9 September 2010	22 March 2011
		Human Resources Development at the Securities and Exchange Commission (SEC) Bangladesh		5 May 2011
		Training for the SEC and Stock Exchanges (SEs)		05 May 2011
		Regulatory Training Courses for September 2011		18 August 2011 20 September 2011
		Overseas Training Program for SEC Staff		24 August 2011
		Further Training Courses and Workshop Programs		29 August 2011
		Onsite Inspections of Securities Brokerage Firms–Report & Letter Writing.		7 September 2011
		Regulatory Training Courses for January 2012 and others.		13 October 2011
		Regulatory Training Courses for January 2012, Course outlines and timeframe		27 October 2011
		SEC and Exchange Skills Development and Training – Risk Management Report		28 December 2011
		Addendum (Setting up a Training Unit within a Human Resources Department, dated 30 January 2012) to prior report (Human Resources Development at the SEC of Bangladesh, dated 5 May 2011).		30 January 2012
		Final Report on Capacity Building for the SEC, SEs and Central Depository Bangladesh Limited		15 March 2012
		Listings and Trading Product Development		3 February 2011
		Presentation: Demutualization (part of exchange governance)		13 April 2011
		Report: Steps to Achieving Exchange Demutualization (part of exchange governance)		19 April 2011
		Report: Demutualization: Broad Principles (part of exchange governance)		5 May 2011
		Enhancing the capacity of management and governance of the SEs.		10 August 2011
		Listing and trading product development		1 May 2012
		Draft strategic business plan, 2011–2013		31 December 2010 25 January 2011

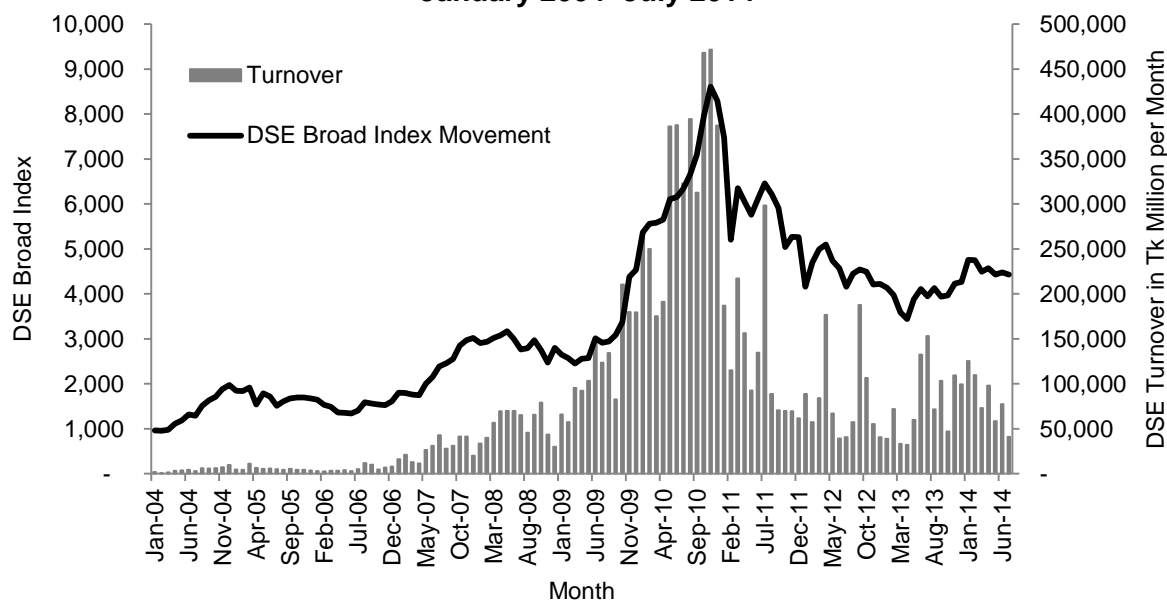
Component	Consultant	Report	Recruitment Date	Report Date
				(Revision)
		Rules to underpin the mandatory examination process.		31 December 2010
		Draft rules to mandate examinations.		8 March 2012
		The intermediaries governance report		21 May 2012
Investment Corporation of Bangladesh	Aires Group	Final Report – Bangladesh: Enhancement of Governance and Capacity of the Capital Market Component 4: ICB	27 December 2010	June 2011
Office of the Chief Controller of Insurance	Maxwell Stamp Limited	Final Reports: <b>Volume 1</b> - Capacity Building of the Insurance Development and Regulatory Authority <b>Volume 2</b> - Report on Training, Workshops and Study Tours <b>Volume 3</b> - Draft Rules and Regulations <b>Volume 4</b> - Evaluation of Financial Performance of State Owned Insurance <b>Volume 5</b> - Actuarial Evaluation <b>Volume 6</b> - Development of Insurance Professional Bodies in Bangladesh	8 July 2009	22 June 2011

Source: Bangladesh Securities and Exchange Commission, Investment Corporation of Bangladesh, Maxwell Stamp Limited

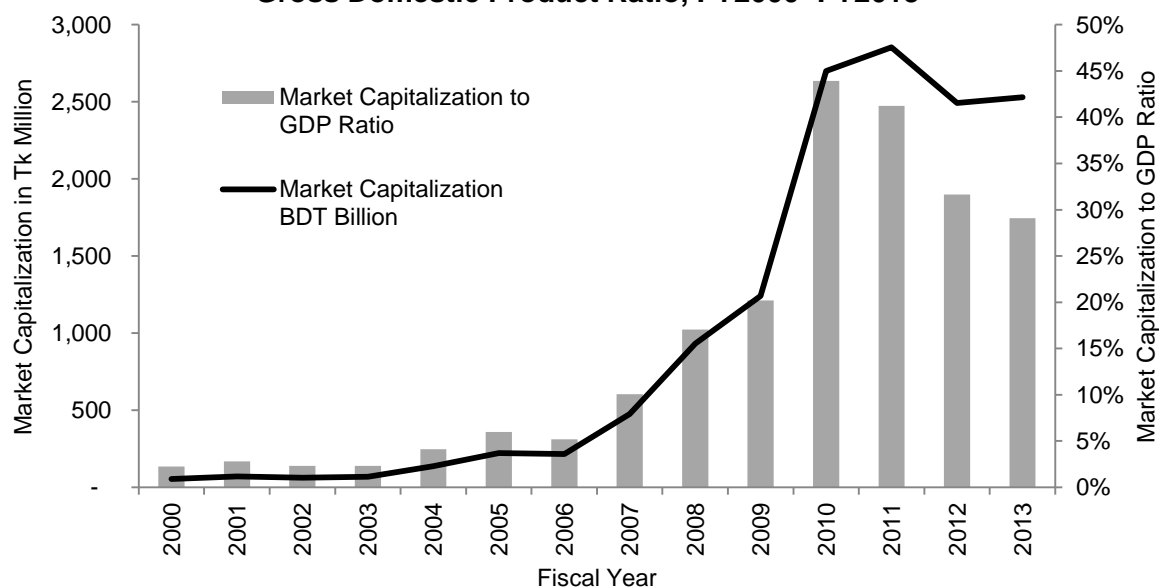


### PERFORMANCE OF THE CAPITAL MARKET IN BANGLADESH

**Figure A7.1: Index and Turnover Trend at Dhaka Stock Exchange, January 2004–July 2014**



**Figure A7.2: Market Capitalization and Market Capitalization to Gross Domestic Product Ratio, FY2000–FY2013**



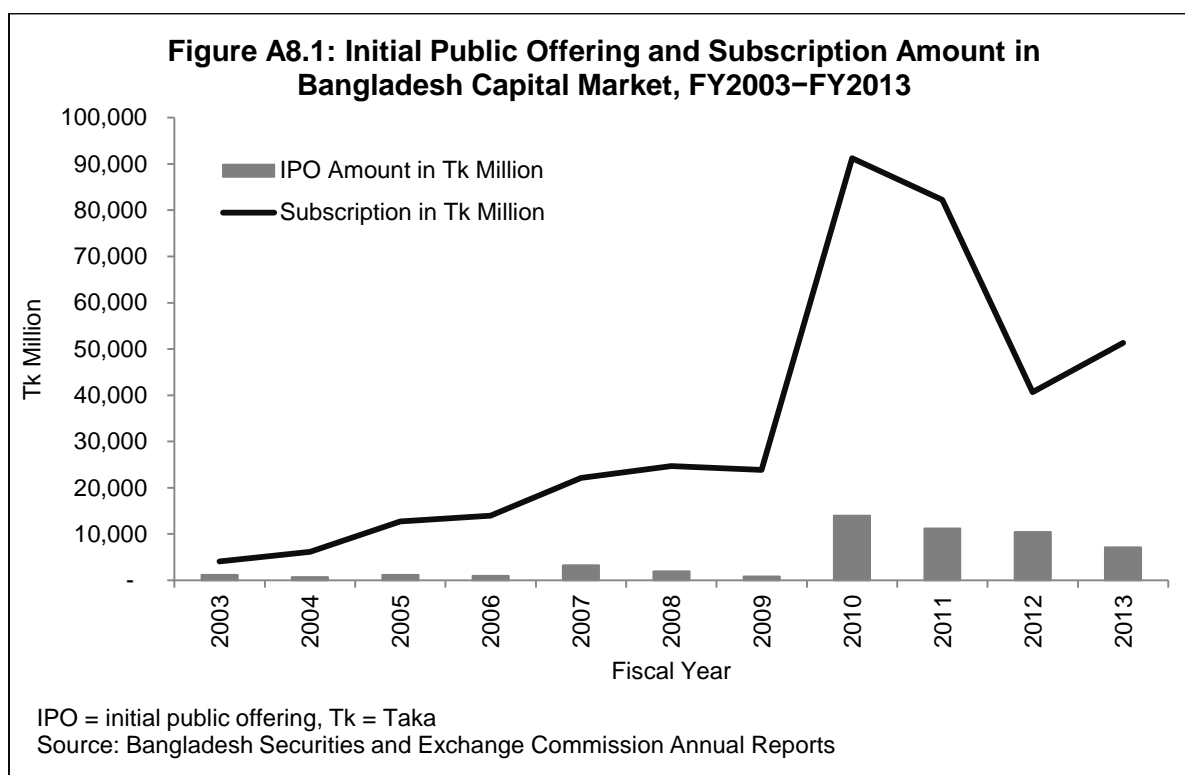
### CAPITAL ISSUANCE TREND IN THE BANGLADESH CAPITAL MARKET

**Table A8.1: Number of Companies Floating Initial Public Offering, Initial Public Offering Amount, Subscription and Subscription Status**

Fiscal Year	Number of Companies	IPO Amount in Tk Million	Subscription in Tk Million	Subscription Status (Subscription/IPO Amount)
2003	13	1,161	4,049	3.5
2004	5	723	6,148	8.5
2005	14	1,159	12,710	11.0
2006	8	991	13,943	14.1
2007	10	3,218	22,148	6.9
2008	9	1,936	24,680	12.8
2009	7	820	23,893	29.1
2010	10	13,989	91,260	6.5
2011	6	11,224	82,253	7.3
2012	11	10,474	40,676	3.9
2013	13	7,089	51,302	7.2

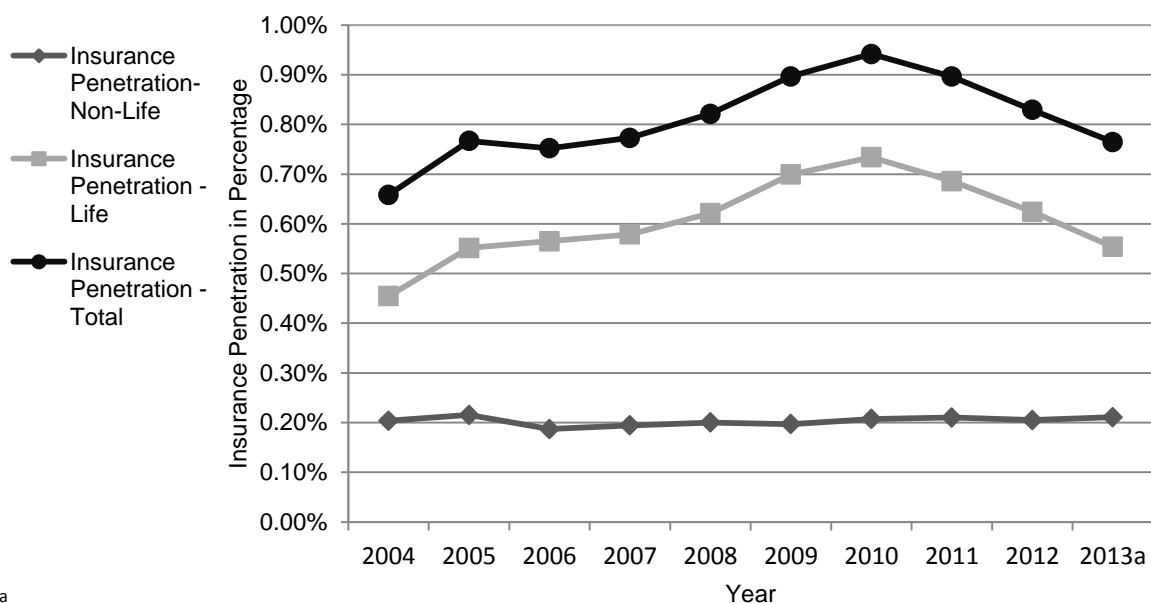
IPO = initial public offering

Source: Bangladesh Securities and Exchange Commission Annual Report 2012-2013



### GROWTH OF THE INSURANCE SECTOR IN BANGLADESH

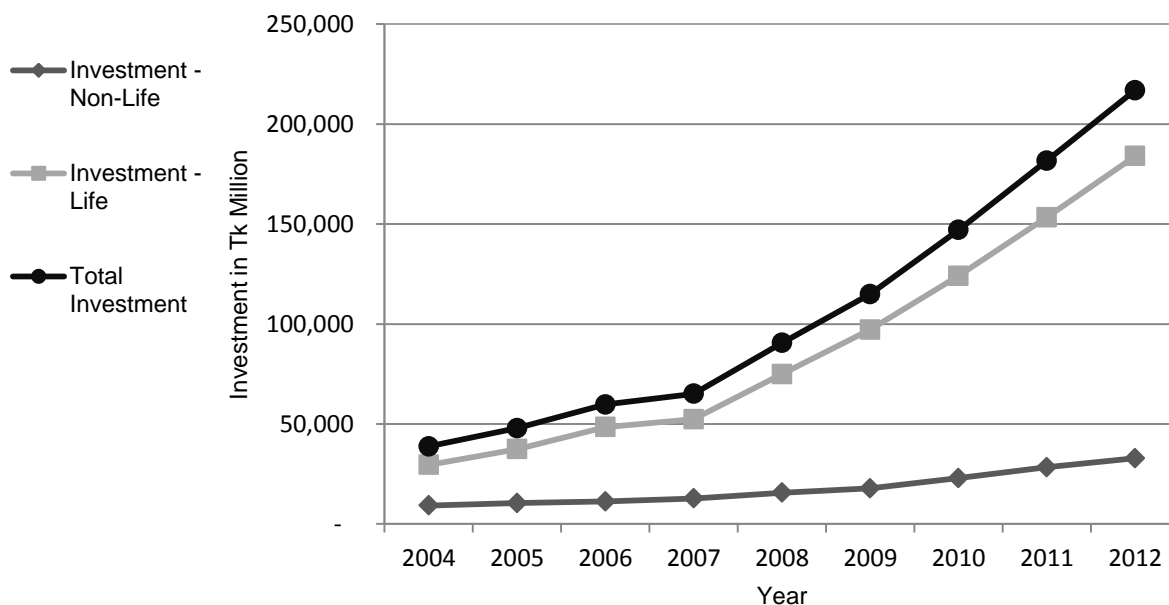
**Figure A9.1: Insurance Penetration (Ratio of Gross Premium to Gross Domestic Product) Trend in Bangladesh, 2004–2013**



<sup>a</sup> provisional figure

Source: Bangladesh Insurance Yearbook 2012-13

**Figure A9.2: Investment of Insurance Sector in Bangladesh, 2004–2012**



Tk = Taka

Source: Bangladesh Insurance Yearbook 2012-13