

## BANGLADESH

# Second Capital Market Development Program



The finance sector and, in particular, the capital markets in Bangladesh are in a fragile state. The stock markets are characterized by excessive volatility with recurrent periods of boom and bust that tend to be a destabilizing force for the economy. Despite the large financing needs of the economy, the capital markets have not been particularly effective in channeling savings to support investment and growth, and bank credit usually fuels the stock market boom. If Bangladesh is to increase its gross domestic product growth and attain its annual target of 10% by fiscal year 2021, it will have to address structural deficiencies in the capital markets by deregulating the financial system to better support the real economy and promote private sector investment.

At the same time, stock market volatility provides an opportunity to redefine the regulatory partnerships to augment transparency, fairness, and effectiveness as well as compliance, which would lead to enhanced trust and confidence in Bangladesh's capital markets.

To strengthen Bangladesh's capital markets, the Asian Development Bank (ADB) approved the Second Capital Market Development Program on 28 November 2012. The program was fully aligned with the Government of Bangladesh's Sixth Five-Year Plan, FY2011–FY2015, ADB's Strategy 2020, and ADB's country partnership strategy with Bangladesh. ADB provided assistance for capital market development to complement and support the government's commitment to meaningful capital market reform.

## PROJECT FEATURES

**Limited policy actions.** A long-term national capital market master plan as a first tranche policy action was formulated to ensure that the new program became an integral part of a government-owned long-term development strategy.

**Enhanced role for Securities and Exchange Commission.** The program ensured market stability by enhancing the Securities and Exchange Commission's role to develop the market, promoting financial stability through joint supervision of the financial system, strengthening regulatory measures, and developing a market surveillance system.

**Capital market reforms.** The capital market reforms under the program played an important role in raising funds cost-effectively and in enabling investors to gain access to alternative investment opportunities, as well as mitigating the negative impact that financial market instability has on the poor.

- **Diversifying.** By diversifying away from a predominantly bank-based system of financial intermediation and providing alternative sources of credit, impacts of economic shocks were reduced. The program emphasized specific capital market reforms to help Bangladesh diversify its financial system.
- **Developing bond and equity capital markets.** The program helped ensure the balanced development of the finance sector, reducing vulnerabilities in the bank-dominated financial system.
- **Releasing constraints on corporate securities.** By addressing policy and regulatory constraints on corporate securities, the program also helped increase the number of bond and equity issues to facilitate the mobilization of scarce financial resources for long-term private sector investment. Developing corporate securities markets and institutional investors also helped diversify financial instruments and broaden the investor base.
- **Strengthening market governance.** The program enhanced market efficiency and transparency and improved investor protection.



Capital market reforms helped investors gain access to alternative investment opportunities.



The program helped mitigate the negative impact of financial market instability on the poor.

Sources: Project Data Sheet. <http://www.adb.org/projects/43477-013/main>; ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-based Loans and Administration of Technical Assistance Grant for the Second Capital Market Development Program in the People's Republic of Bangladesh*. Manila. <http://www.adb.org/projects/documents/second-capital-market-development-program-rrp>

The project was in line with the strategic directions of ADB's South Asia Department. The strategy focused on sustainable infrastructure, climate change mitigation and adaptation, human development, regional cooperation and integration, public-private partnership, and good governance.

**Stock market volatility provides an opportunity to redefine the regulatory partnerships to augment transparency, fairness, and effectiveness**

## PROJECT AT A GLANCE

**Cost and financing:** Ordinary Capital Resources, \$95 million; Asian Development Fund, \$50 million; Asian Development Fund, \$155 million; Japan Fund for Poverty Reduction, \$750,000

**Project approval date:** 28 November 2012

**Project themes:** Economic growth, private sector development, governance, capacity development

**Status of project implementation:** Completed

**Executing agency:** Bank and Financial Institutions Division, Ministry of Finance

## FOR INFORMATION

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Link to South Asia Project Briefs:  
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