

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

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

2. The World Bank's Financial Sector Reform Program on the banking system was launched in 1989.¹ The main objectives were to improve resource allocation in the country by shifting toward a market-based interest rate regime from an administered interest rate regime, and to reform the financial institutions according to international best practices. In collaboration with ADB, the government also initiated a program for capital market development during that time. ADB provided technical assistance (TA) in several areas.² In 1997, ADB approved a program loan—the Capital Market Development Program—to address weaknesses in Bangladesh's capital market, which became apparent during the stock market crash in 1996.³

3. After the completion of the first phase of the Financial Sector Reform Program, the World Bank continued to support the government's financial sector reforms, including the restructuring of nationalized commercial banks and capacity building of the central bank. In 2003, Bangladesh Bank embarked on the World Bank's Central Bank Strengthening Project with a project cost of \$46.13 million, which was completed in 2012.⁴ The project aims to achieve a strong and effective regulatory and supervisory system for the banking sector. In 2014, the World Bank approved a \$60 million interest-free credit to modernize Bangladesh's value-added tax (VAT) administration and to increase tax revenue.⁵ The project will introduce automation, including on-line VAT taxpayer services, and improve transparency in the VAT administration system. The project aims for the ratio of VAT to gross domestic product (GDP) to increase by at least one percentage point of GDP by 2019 from the FY2013 level of 3.7%. It will support the government to implement the new VAT law, which comes into effect in 2015, and aims to provide better services and reduced administrative costs for taxpayers. The project will seek to increase the number of active registered taxpayers to 85,000 by 2020 compared with about 35,000 VAT payers in 2015. It will introduce modern business processes and information technology systems as well as a more transparent service-oriented tax administration. The

¹ Three international organizations were involved in the reform of the financial sector under this program: (i) the World Bank provided credit for recapitalization of the nationalized commercial banks; (ii) the IMF provided technical assistance (TA) for monetary policy and bank supervision; and (iii) the United States Agency for International Development (USAID) provided TA in four areas— for implementation of market-oriented central bank monetary policies, improvement of central bank supervision of the commercial banks, expansion of the private banks' share of commercial banking, and development of commercially viable nationalized commercial banks for privatization.

² ADB. 1990. *Technical Assistance to Bangladesh for the Capital Market Development Project*. Manila (TA 1351-BAN, \$100,000, approved on 8 August 1990); ADB. 1993. *Technical Assistance to Bangladesh for Institutional Strengthening of the Securities and Exchange Commission*. Manila (TA 1943-BAN, \$588,500, approved on 30 August 1993); ADB. 1993. *Technical Assistance to Bangladesh for Study of the Insurance Industry and Pension and Provident Fund Operations*. Manila (TA 2033 - BAN, \$577,000, approved on 27 December 1993); ADB. 1993. *Technical Assistance to Bangladesh for the Audit, Valuation and Study of Restructuring Options for the Investment Corporation*. Manila (TA 2045-BAN, \$479,000, approved on 29 December 1993).

³ ADB. 1997. *Report and Recommendation of the President: Proposed Loan and Technical Assistance Grants (financed from the Japan Special Fund) to Bangladesh for the Capital Market Development Program*. Manila.

⁴ World Bank. 2003. *Bangladesh: Central Bank Strengthening Project*. Washington, DC.

⁵ World Bank. 2014. *Revenue Mobilization Program for Results: VAT Improvement Program*. Washington, DC.

project will also introduce new business processes and a centralized processing center for efficiency gains, as well as improve the approach to tax audit, and refunds.

4. In continuation of its support for the development of the domestic insurance sector, ADB approved two grant assistance projects financed by the Japan Fund for Poverty Reduction: (i) the Developing Inclusive Insurance Sector in 2008 for \$2 million, and (ii) the Institutional Support for Migrant Workers' Remittances in 2010 for \$2 million.⁶ While the first one aims to protect the livelihoods of poor households, especially women, from risks such as accidents, illness, theft or natural disasters, the second targets sustainable welfare improvement and poverty reduction among Bangladeshi migrant workers, including returnee workers and their families. ADB also approved a policy-based loan program through the Second Capital Market Development Program in 2012 for \$300 million.⁷ The program outputs include (i) strengthened market stability by enhancing the role of the Securities and Exchange Commission to develop the market, promoting financial stability through joint supervision of the financial system, strengthening regulatory measures, and developing a market surveillance system; (ii) enhanced market facilitation by developing a long-term vision for capital markets, upgrading accounting and auditing standards, expediting adjudication of enforcement actions, improving the governance of listed companies, and pursuing demutualization of the stock exchanges; (iii) enhanced supply measures by incentivizing the issuance of equities and bonds; and (iv) enhanced demand measures by developing liquid bond markets and catalyzing institutional investor demand.

5. In 2012, the IMF approved a 3-year ECF to Bangladesh with an amount of \$987 million. The ECF is designed to support the government's efforts in restoring overall macroeconomic stability, strengthening the external position, and engendering higher and more inclusive growth. There are four main reform pillars—fiscal policy reforms, monetary and exchange rate policy, financial sector reforms, and trade and investment reforms. Within the financial sector reforms, which ADB coordinates closely, strengthening financial sector governance and supervisory frameworks are emphasized.

Major Development Partners

| Development Partner | Project Name | Duration | Amount (\$ million) |
|--|---|-----------|---------------------|
| Sector: Financial Sector and Capital Market Development | | | |
| IMF | Extended Credit Facility Arrangement | 2012–2015 | 987.00 |
| World Bank | Revenue Mobilization Program for Results: VAT Improvement Program | 2014–2020 | 60.10 |
| ADB | Institutional Support for Migrant Workers Remittances | 2011–2016 | 2.00 |
| ADB | Developing Inclusive Insurance Sector Project | 2009–2015 | 2.00 |
| ADB | Financing Brick Klin Efficiency Improvement Project | 2012–2015 | 50.00 |
| ADB | Second Public–Private Infrastructure Financing Facility | 2013–2019 | 110.00 |

ADB = Asian Development Bank, IMF = International Monetary Fund, VAT = value-added tax.

Sources: Asian Development Bank; Government of Bangladesh.

⁶ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant Assistance to the People's Republic of Bangladesh for the Developing Inclusive Insurance Sector Project*. Manila; *Report and Recommendation of the President to the Board of Directors: Proposed Grant Assistance to the People's Republic of Bangladesh for Institutional Support for Migrant Workers' Remittances*. Manila.

⁷ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-based Loans and Administration of Technical Assistance Grant to the People's Republic of Bangladesh for the Second Capital Market Development Program*. Manila.

B. Institutional Arrangements and Processes for Development Coordination

6. The development coordination arrangement among development partners is guided by the Bangladesh Joint Cooperation Strategy (JCS), 2010–2015,⁸ which is based on the principles of the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). The JCS has been agreed by all 18 partners.⁹ It aims to strengthen aid coordination efforts among the government and its development partners to achieve aid effectiveness. The JCS also aims at developing harmonized and streamlined programs to support Bangladesh's development plans and strategies by providing a common platform for inclusive partnership between all development actors, including civil society.

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

C. Achievements and Issues

8. The Second Capital Market Development Program highlighted the importance of government commitment during implementation to ensure program success. With strong support from the government, the program was successfully completed with the necessary reforms emphasized in policy actions. However, the progress of the reforms initiated under the program was slow in some areas because of vested interests and a shortage of competent personnel to handle complex tasks. The success of the Third Capital Market Development Program hinges on the government and all concerned stakeholders having strong ownership of the policy reforms.

D. Summary and Recommendations

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

⁸ Government of Bangladesh. 2010. *Bangladesh Joint Cooperation Strategy, 2010–2015: How to work more effectively together to deliver real development outcomes*. Dhaka.

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